Office of the Auditor General of Ontario

Annual Report 2017

Volume 1 of 2

Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

In my capacity as the Auditor General, I am pleased to submit to you Volume 1 of the *2017 Annual Report* of the Office of the Auditor General of Ontario to lay before the Assembly in accordance with the provisions of section 12 of the *Auditor General Act*.

Bonnie Lysyk, MBA, FCPA, FCA
Auditor General

Fall 2017
Toronto, Ontario

An electronic version of this report is available at **www.auditor.on.ca**

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Ce document est également disponible en français.

ISSN 1719-2609 (Print)
ISBN 978-1-4868-0868-7 (Print, 2017 ed.) (Volume 1 of 2)
ISBN 978-1-4868-0858-8 (Print, 2017 ed.) (Set)

ISSN 1911-7078 (Online)
ISBN 978-1-4868-0869-4 (PDF, 2017 ed.) (Volume 1 of 2)
ISBN 978-1-4868-0859-5 (PDF, 2017 ed.) (Set)

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Reflections

Bonnie Lysyk
Auditor General of Ontario

Introduction

Serving all members of the Legislature and the taxpayers of Ontario as an independent Office of the Assembly is a privilege and a trust. It requires vigilance in balancing objectivity and productive relations, as well as in gathering information for our work. It also requires the fortitude to address significant issues without fear of push-back and reprisal, and to not walk away from them.

On the one hand, establishing overly cordial relationships with our auditees can result in issues being missed and not fixed. On the other hand, antagonistic relationships can prevent people from working together productively and agreeing on what improvements should be made, and how those improvements should be implemented for the benefit of Ontarians. This is a balance that continually has to be considered and adjusted as we conduct our work assessing transparency, accountability and value for money in the public and broader public sectors.

This, my fifth Annual Report as Auditor General of Ontario, comes at a critical time following our October 2017 Special Report regarding certain government accounting practices. Specifically, we raised in the Special Report that we have serious concerns about the way the government is planning to finance and account for the costs of its electricity rate reduction policy decision. As well, my Office continues to have strong reservations about the way the government claimed certain pension assets on its consolidated financial statements. These are important issues on which our objectivity and independence require us to maintain an uncompromising stance.

While we have noted in this year's value-for-money audit reports areas where planning for service delivery, program implementation, oversight and public reporting needs action, we also have highlighted areas where things are working well, thanks to the solid efforts of thousands of dedicated, hard-working civil servants in Ontario.

These reflections review our serious concerns in the following section, present some themes arising from this year's value-for-money audits and outline some areas that are working well.

Government's Accounting Distorts Results

We continue to disagree that the government is presently entitled to unilaterally use assets in the Ontario Teachers' Pension Plan, so we believe it does not currently have a pension asset worth $11.5 billion. We continue to disagree that the balances relating to transactions between power generators and electricity distributors should be reported in

the Province's consolidated financial statements. Finally, we continue to disagree with the government's proposed accounting for its 2017 electricity rate reduction that will keep billions of dollars in real costs of its policy decision from impacting the Province's deficit and net debt figures.

These inappropriate accounting treatments are not in accordance with Canadian Public Sector Accounting Standards (Canadian PSAS). As such, they obscure, or will obscure, the true state of the Province's annual deficits and net debt reported on its consolidated financial statements at a time when Ontario already has the highest sub-sovereign debt in the world.

The government uses these incorrect accounting treatments to claim it has balanced the Province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the Province's finances.

These concerns led us to issue a qualified opinion on the Province's consolidated financial statements for 2016/17 regarding the impact of its accounting on the annual deficit—the first time in the 24 years since Ontario adopted Canadian PSAS for governments that we have issued such an opinion. (Ontario's qualification in 2015/16 was not for an annual deficit misstatement.)

A qualified opinion is not to be taken lightly; it signals that the Auditor believes the statements contain one or more material misstatements or omissions resulting from the misapplication of Canadian PSAS.

We continue to encourage the government to do the right thing and account for the electricity rate reduction and pension assets in accordance with established Canadian Public Sector Accounting Standards. This is discussed further in **Chapter 2** of **Volume 1**.

Themes From Value-for-Money Audits

This year's Annual Report contains 14 value-for-money (VFM) audit reports. Five of these reports address health care, a sector that accounts for more than 40% of all provincial spending and affects every single Ontarian. The remaining nine VFM reports examine aspects of key provincial sectors and programs, including education, social services, farm-support programs, infrastructure, energy, settlement and integration of immigrants, emergency management, and tribunals (specifically, the Assessment Review Board and the Ontario Municipal Board). This year's VFM audits highlight a variety of areas in need of improvement.

Apart from specific findings, we noted several themes common to many of this year's VFM audits that offer a look at areas where the Province can do better. These include:

- Ministries do not always have all of the information needed to make the most appropriate decisions.
- Some government services could be delivered in a timelier way.
- Performance benchmarks are not always met (or sometimes are not set).
- Spending controls and operational oversight need to be improved.
- The level of services the public receives may vary depending upon where you live in Ontario.
- Opportunities exist to eliminate duplicate services.

However, there was one overarching theme this year that was common in varying degrees to almost all of the VFM audits: **the need to improve planning that supports timely and informed decision-making and oversight**—or even to just have a plan of action with ongoing monitoring of the results being achieved—to ensure efficient and cost-effective public services.

Planning Not Always Done, So Informed Action Not Always Taken

This issue may be tougher to address than it sounds in a climate where the emphasis is often on making decisions or pushing services out the door quickly. Planning generally requires people to assemble and analyze all the relevant data, ask what-if questions, and take a long-term view. This seems contrary to our other theme—that services could be adopted and delivered in a timelier manner—but it is not. Planning can serve to anticipate and put in place systems to speed up effective service delivery once well-thought-out decisions are implemented.

In some cases, we found plans were inadequate to meet existing needs, while in others no plans existed at all to deal with contingencies or emergencies. In still other cases, plans were late or had not been updated in years, with potentially serious implications for all Ontarians. In the case of the electricity rate reduction, the accounting/financing structure and other plans were still being evaluated and developed after the public announcement of the rate reduction was made.

This province has a population of 14 million, along with a talented and hard-working public service. The former means good planning is expected; the latter means good planning is possible.

Planning for Emergencies

Planning is critical in most sectors, but few more so than **Emergency Management in Ontario**. Our audit of this area found that the last provincial risk assessment was done in 2012—based on emergencies experienced in Ontario up to 2009. This means the current provincial emergency management program has not planned for newer threats related to, for example, climate change, cyberattacks and terrorism.

In addition, the two provincial emergency response plans prepared by Ontario's Emergency Management Office have not been updated since 2008 and 2009. As a result, these plans may not adequately reflect current events or threats.

Oversight of emergency management in Ontario is the responsibility of the Cabinet Committee on Emergency Management—which has not met for several years.

Planning in Health Care

Health care is a critical sector that touches the life of every single Ontarian. We found areas where appropriate planning could help improve services while containing costs. Lack of planning also led to delays in adopting newer, cutting-edge services.

We noted in our audit of **Cancer Treatment Services**, for example, that the Province's limited capacity to perform stem cell transplants was first identified as an issue in 2009. Lack of timely planning by the Ministry of Health and Long-Term Care (Ministry) to expand services between 2009 and 2015 led to excessive wait times, costly out-of-country transplants, and poorer patient outcomes. The Ministry only approved capital projects to expand transplant programs in Ontario in 2016/17.

Our audit of **Community Health Centres**, mandated to serve vulnerable people who have traditionally had trouble accessing health care, found that the Province does not have a plan that specifies how the Centres fit strategically within the primary-care system and within the overall health-care system, and how their performance should be measured. This also means the Province is unable to direct funding to those Centres that need it most.

We found in our audit of **Laboratory Services in the Health Sector** that the government plans to update the prices it pays community laboratories for tests in 2017/18, nearly 20 years after its last major price update. We noted that if it had planned to implement the new lower prices in 2015/16, the Province could have saved about $39 million in that year alone.

We also noted in our audit of **Public Health: Chronic Disease Prevention** that Ontario has no policy framework on chronic diseases to guide overall planning and development of programs, or program evaluation. In addition, we found there

were limited formal systems in place to co-ordinate the activities of public health units and share best practices. As well, we noted that it is challenging for public health units to plan programs because the Ministry generally does not finalize funding decisions for the public health units until the last quarter of the fiscal year. This leaves little time for the public health units to deal with unexpected changes in funding.

In our audit of **Ontario Public Drug Programs**, we found that considerable attention has been given to reducing drug costs for Ontarians (although further price reductions are possible). More active planning is needed to determine how to improve the timeliness of reimbursing Ontarians, the cost of non-Formulary drugs listed under the Exceptional Access Program; how to obtain critical information needed to inform decisions to effectively address the opioid crisis in Ontario; and how to maximize recoveries of overpayments to pharmacies.

Program Planning to Help Farmers

The Ministry of Agriculture, Food and Rural Affairs (Ministry) delivers four main **Farm Support Programs**, through its agency Agricorp, to help farmers manage production risks (for example, weather and disease) and price risks (for example, fluctuations in the costs of goods and services, and in the prices at which they sell their commodities).

Our audit of this area found that the Ministry's existing programs would likely not be sufficient to provide support during extended market crises or natural disasters, and the Ministry had no explicit plan for dealing with such major issues.

In addition, one of the four main computer systems used by Agricorp to administer the support programs is 25 years old, while another is over 10 years old. The systems require many manual workarounds that cause delays and errors. Although Agricorp has been working for years on renewal of its IT infrastructure, it has not yet determined the cost and time required to complete this renewal.

Planning to Help Property Owners by Reducing Backlogs

Two tribunals in Ontario serve property owners: the Assessment Review Board (Review Board) hears appeals mainly about property assessments, and the Ontario Municipal Board (Municipal Board) hears appeals primarily related to land-use planning matters.

The Review Board had a backlog of 16,600 unresolved appeals as of March 31, 2017, while the Municipal Board took between 10 months and almost seven years to close complex cases. Each case in the backlog represents a person or business waiting to learn what their property-tax bill will be, or whether they can proceed with their proposed land use. Planning for how to reduce and eventually eliminate the backlog would help thousands of property owners.

More Co-ordinated Planning to Help Newcomers Settle in Ontario

The federal government is the primary funder of newcomer settlement services in Ontario, but the Province also has a mandate to successfully settle and integrate newcomers.

We found there was limited co-ordination between the two levels of government to avoid duplication of services. We estimated that in 2016/17, for example, about $30 million in Ontario-funded newcomer services were provided to individuals who were eligible for services already funded by the federal government. Thus, the extent to which the Ministry also needs to fund services for these individuals is unclear. Planning to expand co-ordination between the two levels of government could have helped minimize duplication of services and resulted in savings for Ontario.

Planning and Action to Align School Board Funding to Needs

The Ministry of Education does not ensure that students with similar needs receive the same level of support no matter where they live in the province, and it gives school boards considerable discretion in how they spend the funding they receive, including funding provided for specific education priorities. Plans to compare and analyze how boards with similar attributes use funding allocated by the Ministry could help the Ministry identify boards that are not operating efficiently or highlight whether further review is necessary.

Planning and Action to Reduce Employee Sick-Time in Schools

From 2011/12 to the 2015/16 school year, school boards experienced added financial pressures because of an increase in sick days taken by school board employees. A study of over 50 school boards found that for the five-year period, sick days increased by 29%, and the overall sick leave paid as a percentage of payroll increased 25%. In our audit, we found that teacher absenteeism results in fewer funds being available for student services because of the need to pay for substitute teachers. There are also indirect costs associated with teacher absenteeism, including reduced productivity and lower morale for staff and students. Planned actions to reduce sick-time would benefit students by reducing these rising direct and indirect costs.

Planning and Action to Improve Maintenance of Existing Government-Owned Infrastructure

The Ontario Infrastructure and Lands Corporation is responsible for managing a large and diverse portfolio of real estate owned and leased by Ontario Government ministries and some agencies. Our audit noted that deferred maintenance of buildings has more than doubled from $420 million as of March 31, 2012, to $862 million as of March 31, 2017. Over the last six years, the condition of government properties has deteriorated from excellent to almost a poor level of condition as measured by the industry standard. Planning is needed to determine how this can be addressed before properties further deteriorate and costs to improve buildings increase even more.

Planning and Actions to Fix Electricity Market Design Problems and Increase Fine and Settlement Recoveries

In addition to operating the Ontario wholesale electricity market, the Independent Electricity System Operator (IESO) is responsible for fixing weaknesses and flaws in the design of the electricity market. It investigates suspicious activity by market participants signalling they may be breaking market rules, and fines rule-breakers. It has collected over $30 million in fines and settlement recoveries since 2011, although it is understood that there is the potential for more recovery. A plan is needed to assess whether additional resources could cover its own costs through additional fines and settlement recoveries. Explicitly legislated investigative powers to compel the production of information would also support the investigative work.

The Ontario Energy Board's Market Surveillance Panel monitors the market operated by the IESO and reports on ways that the market is vulnerable to being abused by market participants because of weaknesses and flaws in its design. Although the Panel has reported on problems with two programs operated by the IESO and has written about 30 reports recommending changes since 2010 on one program and since 2002 on the other program, issues remained outstanding for many years. No significant changes were made to these programs to correct problems that contributed to at least $260 million in possible ineligible costs being claimed by generators, with only $168 million being recovered to date. Earlier planned actions could have reduced the breaking of market rules and the need for investigations.

Planning for Social and Affordable Housing Availability

Challenges for affordable housing are likely to increase over the next 15 years as contracts with housing providers to offer affordable rents for 83,000 units begin to expire (about 50% will have expired by the end of 2020, and the last of them by 2033). Some housing providers have already increased rents and are converting affordable units (that rent for about 20% below market rent) to market-rent units. The Ministry of Housing does not have complete information on how many affordable units have been lost and what the impact has been on tenants.

We also found there is no provincial strategy in place to address Ontario's growing social housing wait list—the longest in Canada. Planning in this area is critical because 185,000 households, representing about 481,000 people, are currently on wait lists for social housing.

What's Working Well

Our audits are intentionally focused on areas where improvements may be needed. It is important to keep this in mind when reading our Annual Report because there are also many things that are working well in the areas we audited. Here are some examples.

- Most cancer patients are generally receiving treatment in a timely manner.
- The Ministry of Health and Long-Term Care has had some success with its Smoke-Free Ontario Strategy to reduce tobacco use and lower the risk of smoking-related chronic diseases.
- Crop production insurance is helping most crop farmers manage production losses.
- The Ontario Public Drug Programs have provided timely access for eligible recipients when their prescribed drugs are listed on the Formulary.
- Accurate and timely lab results are being delivered to health-care professionals.
- Community Health Centres advocate for and provide programs and services to individuals who otherwise face barriers to health-care services created by poverty, geographic isolation, language, culture and different abilities.
- The Ministry of Housing implemented the portable housing subsidy in 2017 that could help service managers better meet the legislated standard of providing about 187,000 subsidies.
- The Ministry of Education is doing a good job of getting financial information from school boards and monitoring their fiscal health.
- School boards are using their restricted funding for purposes intended and have been increasing their use of group purchasing arrangements to acquire goods and services, which should result in cost savings.
- The Ontario Energy Board's Market Surveillance Panel has been effective in monitoring and reporting inappropriate electricity market conduct and recommending that the Independent Electricity System Operator (IESO) fix problems with the electricity market design.
- The IESO has strong processes for compliance with the appropriate cybersecurity standards.
- More attention is now being given to finding ways to improve emergency management in Ontario and updating the Provincial Nuclear Emergency Response Plan.
- Both the Assessment Review Board and the Ontario Municipal Board fill a role in the justice system under applicable legislation by providing citizens with access to dispute resolution mechanisms to address their property-assessment and other land-use concerns.
- The Ministry's bridge training program is helping many internationally trained newcomers to get the training they need to gain employment. Bridge training service provider contracts completed in the last three years

indicate that 71% of those who completed their bridge training program obtained employment in their field or in a related field.

Toward Better Accountability

Each year, our Annual Report addresses issues of accountability—and initiatives to help improve accountability—in government and across the broader public sector.

This year, we examined the quality of provincial agencies' and broader-public-sector organizations' public reporting on their activities through their annual reports. We report our findings in **Chapter 4** of **Volume 1**.

Thorough, clear and accurate disclosure of operational and financial information is essential to accountability, and is a mandated requirement for provincial and broader-public-sector entities. The Public Sector Accounting Board issued a Statement of Recommended Practice (SORP) that provides guidance to organizations on reporting supplementary information beyond that presented in the financial statements. We found room for improvement by many of the provincial entities we examined in the quality of reporting in their annual reports.

We reviewed the 2015/16 annual reporting of 30 provincial entities, 28 of which issued annual reports, and found that only two, Agricorp and Algonquin Forestry Authority, met all the selected SORP criteria for annual reports. Four others in our sample, the Liquor Control Board of Ontario, the Ontario Energy Board, the Ontario Lottery Gaming Corporation and Ontario Power Generation, met all but one of the criteria. These six entities included in their annual reports performance measures that were clear and included performance targets.

Review of Government Advertising

The *Government Advertising Act, 2004* (Act), which took effect in late 2005, requires the government to submit most advertisements to the Auditor General for review to ensure they are not partisan. Ads can only run if we have issued an approval for them. **Chapter 5** of **Volume 1** contains an account of our activities under the Act.

The 2016/17 fiscal year was the first full year that a series of 2015 amendments to the Act were in effect. These amendments weakened our Office's authority to ensure that public money is not spent on advertising that is not factual or that could give the government a partisan advantage.

In 2016/17, the government spent more than $58 million on advertising—the most since the 2006/07 fiscal year. Just over 30% of that total was for advertisements we believe had as their primary goal to foster a positive impression of the governing party. Although we were required to approve these ads as compliant with the amended Act, we noted that they would not have passed our review for partisanship under the original Act—and therefore could not have been broadcast or printed in prior years.

In the past, ads needed to provide the public with specific information, and not focus on government giving itself credit.

For example, the government submitted a $330,000 radio campaign for review in May 2017 to promote the new provincial budget. We noted that the items used vague feel-good statements such as "we're building a stronger, healthier Ontario" and "it's a balanced budget for all of us." Under the previous Act, we would have rejected these advertisements, meaning they could not run. However, these ads were in compliance with the amended Act and we duly approved them.

In addition, the Ministry of Energy spent just over $1 million in 2016/17, and planned in the

first half of 2017/18 to spend another $2.9 million, on campaigns to promote the government's plan to cut Ontario Hydro rates by 25% starting in summer 2017. One of the campaigns used the phrases "we've heard you" and "fair for everyone," which led us to conclude that the campaign was self-congratulatory and aimed primarily at ensuring the government gets credit for lower energy prices. Under the amended Act, we were required to approve all the items as compliant, although we had concerns about some of their claims and their self-promotional tone.

Annual Report in Two Volumes

For the second year, we are presenting our Annual Report in two volumes:

- **Volume 1** contains our examination of the Public Accounts of the Province, our VFM audits, our ongoing analysis of matters relating to improving accountability, our review of government advertising, our Office operations, and discussions on a variety of other matters. We also have one-page summaries of our VFM reports on our website.
- **Volume 2** contains follow-up reports on our 2015 VFM audits and a Special Report that year, and follow-ups on recommendations contained in seven reports tabled in 2016 by the Legislative Assembly's all-party Standing Committee on Public Accounts. These reports were written following hearings into matters raised in our previous Annual Reports. In addition, our Office is for the first time reporting on follow-up work on VFM audits beyond our initial two-year follow-ups. This year we include follow-ups for audit reports issued in 2012, 2013 and 2014. Reflections about what we see overall from our follow-up work are contained in **Volume 2**.

Acknowledgements

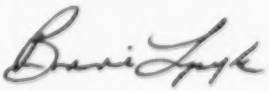
I continue to be grateful for the support of members of the all-party Standing Committee on Public Accounts. I also want to thank the staff in my Office for their outstanding work during the year and their contributions to this Annual Report, and our excellent Panel of Senior Advisers who offer their extensive knowledge, insight and judgment to help steer us in the right direction in addressing issues of importance to all legislators and the public.

As well, thank you to the many people in the public and broader public sectors who were involved in our work for their assistance and co-operation in the completion of this year's audits.

We also express gratitude to the various experts who shared with us their knowledge and advice, and to the public accounting firms that provided us with assistance during the past year and whose relationships we value.

We look forward to continuing to serve the Legislative Assembly and, through it, the citizens of Ontario.

Sincerely,



Bonnie Lysyk
Auditor General of Ontario

Our Team

It takes a massive effort by many people to perform the research, audit, writing and administrative-support work required to produce an Annual Report of this scope and substance. The following is a list of the people with our Office who worked to produce this Report:

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Chapter 1

Summaries of Value-for-Money Audits

3.01 Assessment Review Board and Ontario Municipal Board

Our audit focused on operations of the Assessment Review Board and the Ontario Municipal Board, both of which are part of Environment and Land Tribunals Ontario.

Assessment Review Board (Review Board)

The Review Board hears appeals mainly about residential and non-residential property assessments and classifications. The Municipal Property Assessment Corporation (MPAC) assesses and classifies all properties in Ontario, which affects how much property tax owners must pay to municipalities. If property owners want to dispute an MPAC assessment, they can appeal to the Review Board.

Our concerns related to the Review Board are as follows:

- Despite a decrease since 2009 in the total number of appeals it received, the Review Board still had a backlog as of March 2017 of about 16,600 unresolved appeals.
- Delays in resolving high-dollar assessment appeals impair small municipalities' ability to manage their fiscal affairs, because the property taxes generated from such properties account for a significant portion of their tax bases.
- Board members use their professional judgment, based on evidence presented, to render either an oral decision at the end of a hearing or a written decision at a later date. Oral decisions account for about 80% of the total and, unlike written ones, are not subject to peer quality-assurance review.
- The selection process of members to a tribunal should be competitive and merit-based as per the *Adjudicative Tribunals Accountability, Governance and Appointment Act, 2009*. However, we found that board members appointed in 2014 had ranked low during a recruitment competition.

Ontario Municipal Board (Municipal Board)

The Municipal Board hears appeals primarily related to land-use planning matters, such as amendments to municipalities' Official Plans and zoning bylaws, and minor variances.

Since June 2016, the Ontario Government has been reviewing the Municipal Board to make it more affordable and accessible to Ontarians. In May 2017, the government introduced Bill 139, which, if passed, would change the name of the Municipal Board to the Local Planning Appeal Tribunal (Appeal Tribunal).

One major concern expressed by municipalities was that the Municipal Board sometimes stepped outside of its jurisdiction to arbitrarily overturn sections of municipalities' Official Plans without proper interpretations of the *Planning Act*. Several municipalities told us that they spent millions of taxpayer dollars to defend their Official Plans, which had already been approved by their elected

councils and the Province. While the proposed legislation bars the new Appeal Tribunal from hearing certain cases against municipal Official Plans, it does not address operational issues related to the hearing process.

Our audit identified operational issues that the Municipal Board should address before transitioning to the Appeal Tribunal. Among our findings:

- In a majority of cases, only one Municipal Board member was assigned to conduct hearings. As well, the Municipal Board does not provide audio-recording services at hearings for subsequent internal and/or external reviews that might be needed.
- In 2016/17, the Municipal Board scheduled only 44% of minor variance cases for a hearing within 120 days of the receipt of a complete package, well below its target of 85%. For complex cases that were closed in 2015/16 (the most recent year with available data), the appeal process took between 10 months and almost seven years from case received to case closed.
- The Municipal Board has done no analysis to determine whether it had a sufficient number of members to handle existing workloads and reduce delays in scheduling and resolving appeals. Despite 80% of decisions being issued within 60 days after the end of a hearing, many others took almost a year to get done.
- We found that documentation was incomplete to demonstrate how the board members were selected in 2016.

3.02 Cancer Treatment Services

Cancer, a group of more than 200 different diseases characterized by the uncontrolled spread of abnormal cells in the body, is the leading cause of death in Ontario. In 2016, an estimated 29,000 Ontarians died of cancer.

In 2015/16, Ontario spent about $1.6 billion to treat cancer, most of it for hospital procedures and treatment drugs.

The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for cancer (or oncological) care in the province, and Cancer Care Ontario (CCO) is the provincial agency responsible under the Ministry for funding hospitals, collecting cancer data, developing clinical standards and planning cancer services to meet patient needs.

About 100 Ontario hospitals deliver cancer-treatment services across the province's 14 Local Health Integration Networks, and 14 of these hospitals are designated as regional cancer centres, meaning they can deliver the most complex cancer treatments. We found that CCO, in conjunction with the Ministry and hospitals, has effective procedures and systems in place to ensure that most—but not all—cancer patients receive treatment in a timely, equitable and cost-efficient manner.

We noted that Ontarians' needs were not being met in the areas of stem cell transplants, access to take-home cancer drugs, radiation treatment, PET scans, symptom management and psychosocial oncology services. Wait times for some urgent cancer surgeries and diagnostic services also needed improvement.

Among our findings:

- Urgent surgeries for 15 out of 17 types of cancer did not meet the Ministry's 14-day wait-time target, and we noted significant wait-time variations by region.
- The CCO has determined that 48% of cancer patients province-wide would benefit from radiation treatment, but only 39% actually received it in 2015/16.
- Ontario does not cover the full cost of take-home cancer drugs for all patients. In comparison, British Columbia, Alberta, Saskatchewan and Manitoba cover the costs of all government-approved cancer drugs for all patients.
- In 2015/16, actual wait times for stem cell transplants using the patient's own previously stored cells were about 1.5 times longer than CCO's target wait time. Actual wait times for transplants using stem cells

donated by someone else were almost seven times longer than the CCO target.

- Limited capacity for stem cell transplants was first identified as an issue in Ontario in 2009. The Province sometimes sends patients to the United States for the procedure, at an average cost of $660,000 (Cdn)—almost five times the $128,000 average cost in Ontario.
- Ontario performed fewer positron emission tomography (PET) scans, which use injected radioactive tracers to create images of cancers, per 1,000 people than elsewhere in Canada or in other countries. Ontario has not updated eligibility criteria or OHIP coverage rules for PET scans since 2013, and has been slow to adopt new radioactive tracers.
- Just under half of biopsies performed in hospital operating rooms were done within the Ministry's targeted wait time of 14 days.
- Review of diagnostic-imaging results by a second radiologist has remained inadequate even though misinterpretation of some results in 2013 led to several incorrect diagnoses in Ontario.
- Psychosocial oncology services, which are provided by such specialists as psychiatrists, social workers and registered dieticians, were insufficient and varied from hospital to hospital. Support services were also insufficient to help ease patient symptoms and side effects during treatment. As a result, many patients visited hospital emergency rooms at least once during their treatment.

3.03 Community Health Centres

Ontario's 75 Community Health Centres (CHCs) provide health care and community programs and services designed specifically for their communities. CHCs are mandated to serve populations that have traditionally faced barriers in accessing health services, including the homeless, seniors, refugees, new immigrants and low-income individuals. CHCs are also mandated to provide services at no charge to people without a health card. In the 2016/17 fiscal year, CHCs received $401 million from the Ministry of Health and Long-Term Care (Ministry), through Ontario's 14 Local Health Integration Networks (LHINs).

CHCs offer a wide range of services, examples of which include check-ups, immunizations, diabetic foot care, nutrition counselling, needle exchange, youth leadership training and skills development, parent and child programs, and outreach to isolated seniors. CHC physicians and nurse practitioners are salaried and do not bill the Ontario Health Insurance Plan for health services they render.

While CHCs serve vulnerable populations and can contribute to reducing the strain on the health-care system and other provincial government programs, the Ministry and the LHINs lack critical information to make informed decisions on whether CHCs are cost-effective in providing quality care to their target population groups, and whether the Ministry should expand the network of CHCs or reallocate funding among existing CHCs.

The following are some of our other significant observations:

- Because there has not been a comprehensive assessment of all primary-care models in Ontario, it is difficult to know how CHCs fit strategically within the primary-care system and the overall health-care system, and how the various models, such as CHCs, Family Health Teams, and fee-for-service practitioners, can best be used to effectively deliver primary care to Ontarians.
- We found that 16% of the CHCs were responsible for more patients than their capacity allows; in contrast, about half of the CHCs were serving less than 80% of their targeted number of patients. We found that on a weekly basis in 2016/17, each CHC physician or nurse practitioner averaged 31 patient encounters, but some had as few as 16 encounters and some had almost 60 encounters. Without examining this data, the Ministry and the LHINs could not identify

areas where resources can be reallocated to make the best use of the investment in the CHC sector.

- Four LHIN sub-regions (smaller geographic areas located within existing LHIN boundaries) do not have a CHC or any other form of primary care that offers inter-professional care under one roof.
- Neither the Ministry nor the LHINs defined what professionals, at a minimum, should be included in each CHC, and what minimum services the inter-professional teams should provide to CHC clients. Defining the staffing model and the core services that should be offered at each CHC can increase the efficiency and effectiveness of inter-professional teams and improve clients' access to their services.
- The annual base funding that LHINs provide to CHCs is predominantly based on historical funding levels, and not tied to the number of clients the CHCs serve. The LHINs did not increase base funding to those CHCs that exceeded their targeted number of clients.

3.04 Emergency Management in Ontario

The Provincial Emergency Management Office (EMO) is a branch within the Office of the Fire Marshal and Emergency Management division of the Ministry of Community Safety and Correctional Services. It is responsible for overseeing and co-ordinating the Province's emergency management program as well as overseeing the emergency management programs of the various ministries and municipalities in Ontario.

The focus of emergency management is on protecting lives, infrastructure, property and the environment, and helping to ensure the continuity of government operations and critical assets.

Emergency management involves five interdependent components: prevention, mitigation (risk and damage reduction), preparedness, response and recovery. To determine the priorities for emergency management and identify the activities to undertake within these five components, the following must first be identified:

- potential hazards (such as floods, forest fires and severe weather events);
- critical infrastructure (such as roads and telecommunications); and
- time-critical government services (such as those that need to remain operational during an emergency or be restored quickly afterwards).

Although the Province has some measures in place to prepare for and respond to emergencies, there are weaknesses in the emergency management programs across the province and in EMO's oversight and co-ordination of emergency management programs.

The following are some of our significant observations:

- The current governance structure for emergency management in Ontario is not effective for overseeing a province-wide program. The Cabinet Committee on Emergency Management is responsible for the oversight of emergency management, but has not met for several years.
- Emergency management is given lower-than-expected priority in Ontario. EMO competes with its Ministry's other priorities. EMO has not fared well in this environment in the past, and has experienced significant cuts to its program, staff and budget.
- The latest provincial risk assessment was done in 2012 based on emergencies experienced in Ontario up to 2009. Therefore, the current provincial emergency management program has not considered emergencies that have occurred over the past eight years, or the latest information on climate change and other developing risks, such as cyberattacks and terrorism.
- The provincial emergency management program does not focus on all five components of emergency management: prevention,

mitigation, preparedness, response and recovery. The provincial emergency management program focuses mainly on just two of these—preparedness and response—with the Ministry of Municipal Affairs also undertaking activities related to recovery through the disaster financial assistance programs. Although there was a plan in 2003 to expand the provincial emergency management program to include all five components by 2006, this has not yet been done.

- The two provincial emergency response plans that are prepared by EMO, the Provincial Emergency Response Plan and the Provincial Nuclear Emergency Response Plan, have not been updated since 2008 and 2009, respectively. As a result, these plans may not reflect current operations or events.
- Approaches for practicing for emergencies were insufficient to ensure the Province is ready to respond to emergencies, as approximately 80% of the practice tests undertaken during the past five years were basic practice tests (such as discussions and seminars) and generally did not include a simulation of an actual emergency.
- The Province's overall state of readiness to respond to emergencies needs significant improvement. For example, numbers of trained staff are not sufficient for a lengthy emergency, and agreements are not in place for resources that may be needed in an emergency response.

3.05 Farm Support Programs

Ontario's 49,600 farms account for one-quarter of the Canadian total. In 2016, the province's agricultural sector contributed $4.4 billion to the Ontario economy and employed almost 78,000 people.

Farmers face two broad categories of operating risks: *production risks* relate primarily to such issues as weather, disease and pests, and *price risks* relate to fluctuations in the cost of goods and services farmers must buy, and in the selling prices for their commodities.

The federal, provincial and territorial governments share responsibility for developing programs to help farmers manage these risks. In Ontario, the Ministry of Agriculture, Food and Rural Affairs (Ministry) is responsible for farm-support policy decisions. Agricorp, an Ontario Crown agency, delivers most programs in this province.

From 2012/13 to 2016/17, the federal government and the Ministry spent a total of $2.3 billion on farm-support programs in Ontario. Four business-risk-management programs provide most of the financial assistance to farmers:

- **Production Insurance** compensates crop farmers for lower yield due to adverse weather, wildlife, pest infestation or disease.
- **AgriStability** compensates farmers for significant drops in their farm income.
- **AgriInvest** is a savings program in which the federal and provincial governments match farmers' deposits to help farmers manage small decreases in income.
- **Ontario Risk Management Program** compensates livestock, grains, and oilseed farmers when the cost of producing their commodities exceeds their market value. The Program serves fruit and vegetable farmers in a similar way to AgriInvest.

Our audit found that the programs are not fully effective in ensuring support for farmers to manage their risks. Production Insurance appears to provide timely and sufficient support to help crop farmers manage production risks, but we found that weaknesses in the design of the other programs limit the ability of the entire suite of farm-support programs to provide appropriate support. Specifically:

- The Ontario Risk Management Program often pays farmers with little regard to their individual needs because payments are based on the industry-average production cost instead of farmers' actual costs. The Program's design also benefits large farms, which receive payments based on higher

industry-average production costs rather than on their actual—usually lower—costs due to economies of scale.

- AgriStability's ability to provide support is limited by low farmer participation. Farmers have cited reasons for not participating, such as delays in payments, recent changes that have resulted in lower payments, and inequities across sectors.
- Existing programs would likely be insufficient during a market-related crisis, and the Ministry's existing plans are inadequate to provide support during such crises because they do not say how support would be provided and are not designed to deal with long-term or market-related crises.
- Agricorp systems and processes need to improve to reduce overpayments due to incorrect and misleading information from farmers. In 31% of the audits conducted in the last five years, Agricorp's program auditors identified $5.6 million in over- and underpayments to farmers resulting from incorrect or false information provided to Agricorp.
- Agricorp uses over 30 IT systems to administer programs, but one of its four main systems is 25 years old while another is over 10 years old. In the last five years, there have been 31 system-related errors that led to farmers either receiving incorrect information about their program participation, or incorrect payments totalling over $2.7 million.

3.06 Independent Electricity System Operator—Market Oversight and Cybersecurity

Ontario's electricity market determines the wholesale (market) price of electricity, which is one of the two components of the electricity charge on ratepayers' electricity bills. The other component is the "global adjustment," which in 2016 made up about 85% of the electricity charge.

The Independent Electricity System Operator (IESO) administers the market, in which generators offer to supply electricity at prices to recover their marginal costs for producing electricity, and large consumers and out-of-province electricity importers indicate how much electricity they are willing to consume and at what price.

Overseeing the market are a surveillance panel working for the Ontario Energy Board (OEB Panel), which monitors the market, and investigates and reports on ways that the market is vulnerable to being inappropriately manipulated because of weaknesses and flaws in its design; and a division of the IESO (IESO Oversight Division), which is responsible for monitoring, investigating and fining market participants that may be breaking market rules. The IESO is responsible for fixing weaknesses and flaws in market design; however, the Ontario Energy Board has the authority to revoke the changes and refer them back to the IESO for further consideration.

Among our findings:

- The OEB Panel has been effective in monitoring and reporting inappropriate market conduct, and recommending that the IESO fix problems with market design. However, the Ontario Energy Board itself could have done more to protect ratepayers' interests by requesting the IESO to further review and reconsider a market rule change to address the OEB Panel's repeated recommendations to fix certain weaknesses and flaws in the design of Ontario's electricity market.
- One program that the OEB Panel has recommended for years that the IESO scale back continues to pay gas generators an average of about $30 million more per year than necessary. In addition, nine gas and coal generators claimed as much as $260 million in ineligible costs under this program between 2006 and 2015. The IESO has recovered about two-thirds of this amount.
- There is little representation of ratepayers' interests on the working group that is helping to determine the future design of the

electricity market through the IESO's Market Renewal Initiative. Some members of this group have been, or are being, investigated for benefitting financially from existing market design problems.

- According to the OEB Panel and our own review, the process at the IESO to change market rules is influenced by gas generators and others that have a direct and substantial financial interest in the current market design.
- Three investigations by the IESO's oversight division between 2015 and 2017 uncovered significant problems resulting in over $30 million in fines and settlement recoveries, yet this division has limited resources and lacks explicitly legislated investigative powers to do more and timelier work.
- The government has several times broadened industry participation in the Industrial Conservation Initiative (ICI), a program that allows industrial ratepayers to reduce their electricity charges by shifting their global-adjustment costs to residential and small-business ratepayers. The OEB Panel reported that the ICI's impact in its first 10 months (it was launched in January 2011) was a reduction in the global-adjustment charges of about 65 large industrial ratepayers of about $245 million, which was added to the electricity bills of residential and small-business ratepayers. Since the initial launch, the ICI was further expanded three times (in July 2015, January 2017 and July 2017), shifting an even more significant amount of the global-adjustment charge from large industrial ratepayers to residential and small-business ratepayers. Before the initiative launched in January 2011, all ratepayers were paying about 7 cents per kilowatt hour (cents/kWh). After six-and-a-half years (as of June 2017), residential and small-business payers were paying 12 cents/kWh and large industrial ratepayers were paying 6 cents/kWh.

We also audited how well the IESO protects its critical IT assets and infrastructure, and found the IESO's cybersecurity system complies with power grid reliability standards. However, the IESO could be better equipped to defend itself from an advanced cyberattack should one occur.

3.07 Laboratory Services in the Health Sector

Laboratory services involve the collection, testing and analysis of a patient's specimen (such as blood, urine or stool) for health-care professionals to make decisions on the diagnosis and treatment of their patients. Various studies note that laboratory tests inform and guide over 70% of medical decisions.

Ontario has about 540 specimen collection centres where specimens are collected from patients, and about 200 laboratories where the collected specimens are analyzed. In 2015/16, the Ministry of Health and Long-Term Care (Ministry) spent about $2 billion funding 260 million tests performed by:

- community laboratories (operated by private companies);
- hospital laboratories;
- health-care professionals (mainly physicians) who perform tests in their own offices; and
- Public Health Ontario laboratories.

Health-care professionals are responsible for ordering laboratory tests for their patients. Once the specimens are collected from patients, they are sent to a laboratory for analysis. In addition to community and hospital laboratories, Public Health Ontario laboratories also perform testing for infectious diseases, such as HIV and hepatitis.

Our audit found that laboratory services are generally provided to Ontarians safely, and accurate laboratory tests results are generally provided to health-care professionals in a timely manner. However, there are several areas relating to cost-effectiveness, accessibility, and performance measurement and reporting of laboratory services that need improvement.

The following are some of our significant observations:

- The Ministry has not made any major updates to its price list (which is the price it pays to community laboratories for each test they perform) since 1999. It plans to implement a new price list only in 2017/18. If this new price list had been in effect in 2015/16, the Ministry would have paid community laboratories $39 million less that year.
- The Ministry has not regularly evaluated whether currently uninsured tests, such as CA 125, used to measure the amount of protein cancer antigen in a patient's blood, should be funded, even though many of these tests have become more widely accepted as medically necessary and are often funded by other provinces.
- The Ministry's actions to reduce unnecessary testing, such as Vitamin D testing, did not result in effective or sustainable long-term reductions in testing.
- The Ministry's strategy for genetic testing resulted in costly out-of-country testing. Between 2011/12 and 2015/16, the Ministry paid over US$120 million related to over 54,000 specimens sent out of the country. While the cost to perform some genetic tests would be cheaper if these tests were done in the province instead of out of country, the Ministry's current strategy to increase in-province genetic testing is still preliminary.
- The Ministry has not regularly reviewed billings by physicians who perform laboratory tests on their patients. We identified 120 family and general practice physicians with large test volumes and billings. The 15 with the highest billings each performed between about 75,000 and 182,000 tests, and billed between about $600,000 and $1.4 million in 2015/16 (about 128 to 300 times the average billings of a typical family and general practice physician). The Ministry has performed only a limited number of reviews to verify the accuracy of these billings.
- Physicians do not require a licence to perform in-office laboratory testing and are not required to participate in the Province's quality management program. This was raised as a concern in our 1995 and 2005 audits, as well as in external studies, but the Ministry has taken no action over the past two decades.

3.08 Ministry Funding and Oversight of School Boards

The Ministry of Education (Ministry) funds 72 district school boards to provide elementary and secondary education to about 2 million students (as of the 2016/17 school year). The school boards comprise 31 English public boards, 29 English Catholic boards, four French public boards and eight French Catholic boards. Collectively, there are approximately 4,590 schools, 113,600 teachers and 7,300 administrators in the system.

The Province shares responsibility with municipalities for funding school boards. In the 2016/17 school year, the Ministry and municipalities combined provided school boards with $23 billion in operating funding.

With respect to oversight of school boards' use of operating funds, the Ministry is responsible for the development and implementation of policy for funding the boards.

We noted that the Ministry receives considerable information from school boards to monitor student performance and the boards' financial situation. In addition, we found that the Ministry has processes to check financial data submitted to the Ministry electronically.

However, we found the Ministry needs to improve its oversight of school boards in certain areas. Most significantly, we found that the Ministry does not ensure that students with similar needs receive the same level of support no matter where they live in the province. Also, we noted that the Ministry gives school boards considerable

discretion in how they spend the funding they receive despite some funding being provided for specific education priorities.

Our more significant audit findings are as follows:

- In 2002, an independent task force reviewed the Ministry's complex formula for determining school boards' funding. The task force recommended that the Ministry annually review and update the benchmarks used in the formula and conduct a more comprehensive overall review every five years. Fifteen years later, the Ministry has not commissioned another independent review of the funding formula.
- Grants for specific education priorities are not always allocated to school boards according to actual student needs. For example, half of the special-education funding is allocated based on a school board's average daily enrolment of all its students, instead of the number of students who are receiving special-education programs and services. We found that if the Ministry had allocated this half of the special-education funding based on the actual number of students receiving special-education programs and services, $111 million would have been allocated differently across the boards.
- The Ministry is not ensuring that funding for specific education priorities is being spent as intended. In 2016/17, only 35% of $10.9 billion in special purpose funding was restricted in use. Except for restricted funding, the Ministry does not require boards to report how the individual grants that comprise the overall Grants for Student Needs were spent, even if those grants were provided for certain reasons.
- The Ministry does not compare and analyze actual expenses of school boards on a per-student or per-school basis. Our analysis showed significant differences in expenses per student by region, but also between boards in the same region. Such analysis could help the Ministry identify boards that are not operating efficiently or highlight where further review is necessary.
- Students have been performing below the provincial standard in Grades 3 and 6 math and Grade 9 applied math since at least 2008/09. Root causes identified through Ministry consultation included the need to increase educators' knowledge of the mathematics curriculum, effective teaching strategies, and effective assessment and evaluation practices.
- Although the amount of funding allocated to each school board is based to a large extent on overall student enrolment, over the six-year period from 2011 to 2016, enrolment was audited at only 6% of schools—3% of all elementary schools and 18% of all secondary schools.

3.09 Ontario Public Drug Programs

About 4 million Ontarians receive drug coverage through the Ontario Public Drug Programs (Programs) annually. The Ministry of Health and Long-Term Care (Ministry) is responsible for administering the Programs, which cover most of the cost of over 4,400 drug products listed on the Ontario Drug Benefit Formulary (Formulary), over 1,000 drugs through the Exceptional Access Program (non-Formulary), certain disease-specific programs, as well as various professional pharmacy services, received by eligible Ontarians.

In 2016/17, the Programs' total expenditure was $5.9 billion (before rebates from drug manufacturers); the expenditure of the Ontario Drug Benefit Program alone amounted to $5.4 billion when co-payments and deductibles were included. According to the most recent data available, brand-name drugs accounted for about two-thirds of the total expenditures under the Ontario Drug Benefit Program, and generic drugs accounted for the remaining one-third. One of the Ministry's key responsibilities is to negotiate with drug manufacturers to

achieve the best price possible for drugs covered by the Programs.

For brand-name drugs, over the last decade, the Ministry has taken initiatives to negotiate contracts with drug manufacturers that often resulted in receiving rebates from the manufacturers. However, we noted the following:

- The Ministry received $1.1 billion in rebates from drug manufacturers in 2016/17. However, the Ministry is not able to determine how the confidential discounted prices of the brand-name drugs compared to prices paid by other countries because pricing information is confidential globally.
- The Ministry took over six months on average to invoice drug manufacturers after the date when rebates could be recovered, which would equate to about $2.2 million interest income lost in 2016/17. Further, the Ministry has made some errors in calculating the rebates—in one case, this led to a failure to invoice over $10 million. The Ministry recovered the amount when the drug manufacturer informed it of the error.

For generic drugs, we noted:

- Generic drug prices in Ontario have dropped significantly in the last 10 years, but the Province still pays more than foreign countries. For example, our analysis shows that, in 2015/16, Ontario paid roughly $100 million (or about 70%) more for the same drugs as New Zealand.
- We compared a sample of common generic drugs used in both community and hospital settings, and found that the Ministry paid $271 million (or 85%) more than some Ontario hospitals. Opportunities exist for more discounts on generic drugs.

Among other findings:

- We found that, in general, the Ministry pays for eligible recipients' drug costs in a timely manner when their prescribed drugs are listed on the Formulary. However, delays are common with people who require approval through the Exceptional Access Program on a case-by-case basis. For example, in 2016/17, the overall time for the two most requested biologic drugs (over 7,800 total requests) was approximately seven to eight weeks.
- In 2016/17, out of the more than 4,260 pharmacies, the Ministry inspected 286 pharmacies and recovered $9.1 million in inappropriate claims. However, our audit identified many other inappropriate claims, leading to about $3.9 million of inappropriate payments not inspected and/or recovered by the Ministry. Also, the Ministry did not refer several potentially fraudulent billings to the Ontario Provincial Police in a timely manner.
- The Ministry spent $157 million through the Ontario Drug Benefit Program on opioids for about 720,000 recipients in 2016/17. Despite numerous initiatives taken by the Ministry in dealing with the recent opioid crisis, it does not know whether individuals overdosed or died from using prescribed or illicit opioids. Having this information would let the government know where to devote resources.

3.10 Public Health: Chronic Disease Prevention

Public health works to promote healthy lifestyle behaviours and prevent the spread of disease. One of public health's functions is to prevent chronic diseases, defined as those that last a long time and generally cannot be prevented by vaccines or cured by medication.

Major chronic diseases include cardiovascular and respiratory diseases, cancer and diabetes. In Ontario, the number of people living with these diseases has been on the rise.

Research from the Institute for Clinical Evaluative Sciences, an Ontario-based not-for-profit research institute, shows that chronic diseases place a significant cost burden on the health system. According to its 2016 report, physical inactivity, smoking, unhealthy eating and excessive alcohol

consumption cost Ontario almost $90 billion in health-care costs between 2004 and 2013.

Limiting these modifiable risk factors can prevent or delay most chronic diseases. Ontario has had some success in reducing smoking. However, the Province has not placed a similar focus on the other modifiable risk factors to reduce the burden of chronic diseases.

There are opportunities for the Ministry of Health and Long-Term Care (Ministry), Public Health Ontario (a provincial agency that provides scientific and technical advice to government on public health issues) and the 36 public health units (organizations mostly funded by the Ministry that plan and deliver programs and services to reduce the burden of chronic diseases) to work better together to address the key modifiable risk factors of chronic diseases.

Our audit found that significant inefficiencies exist across the public health units because there are no formal systems in place to co-ordinate their activities and share best practices. As well, the Ministry does not ensure public health units' performance in chronic disease prevention. Consequently, it cannot fully confirm that public health units and all other recipients of considerable provincial funding on chronic disease prevention are making progress in helping Ontarians live longer and healthier lives.

Our other significant concerns are as follows:

- The Province has no overarching policy framework on chronic disease prevention to guide overall program planning and development.
- While the public health units have a mandate to work with schools, the lack of co-ordination at the provincial level has resulted in public health units having to individually spend resources to build relationships and persuade schools to participate in effective public health programs instead of on service delivery to influence healthy living behaviours in young children.
- Public health units have undertaken research and developed local solutions independently. We noted significant duplication of effort and instances of variation in the depth of the research and type of information gathered.
- We found that public health units have not all been able to access complete and current epidemiological data to study the patterns, causes and effects of health and disease within populations. Even in instances where the data is available, some public health units did not have the required time and/or staff expertise to review and analyze epidemiological data.
- We noted cases where some public health units did not evaluate new programs, or measure the programs' effectiveness, as required by the Ministry.

3.11 Real Estate Services

The Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) is a Crown agency under the Ministry of Infrastructure (Ministry). One of Infrastructure Ontario's responsibilities is to manage real estate owned and leased by Ontario Government ministries and some agencies (government properties).

Infrastructure Ontario is responsible for helping its client ministries and agencies find space by either matching their needs to available space in government properties or leasing other space within the private sector. It is also responsible for managing these properties, including the costs of cleaning, repairs and maintenance, security, utilities, property taxes, and, for government-owned land and buildings, their sale or demolition.

Further, Infrastructure Ontario is responsible for overseeing capital projects, namely the construction, rehabilitation and renovation of government properties.

About 9% of government properties, based on rentable square feet as of March 31, 2017, were procured through the Alternative Financing and Procurement (AFP) model. A number of hospitals are maintained through AFP agreements, and,

while Infrastructure Ontario is not directly involved in managing hospitals' AFP agreements, it offers guidance to the hospitals when requested.

Our audit determined that Infrastructure Ontario's management of government properties was impacted in part by weaknesses in the Enterprise Realty Service Agreement (Agreement) between Infrastructure Ontario and the Ministry of Infrastructure. The Agreement does not set out any mandatory, minimum standard of performance for managing the costs of capital projects. It also does not set out timelines for meeting the accommodation standard for office space designed to ensure that existing government properties are used efficiently, and timelines for maintaining the state of government-owned properties to the Agreement's standard.

Overall, our audit found the following concerns:

- Deferred maintenance of government buildings has more than doubled from $420 million as of March 31, 2012, to $862 million as of March 31, 2017. Over the last six years, the condition of government properties has deteriorated from excellent to almost a poor level of condition as measured by the industry standard.
- The design of a Request for Proposals (RFP) in 2014 attracted only three bids for the management of 7,500 capital projects worth $900 million over five years. The RFP divided the province into two areas, which could only be handled by large companies.
- Infrastructure Ontario does not obtain enough information from its two project managers to assess whether procurements of vendors for client ministry and agency capital projects are done in a competitive and fair manner.
- Infrastructure Ontario informed us that its initial cost estimates for capital projects are limited as they do not factor in the additional costs that might be incurred to address actual site conditions. However, it uses these estimates for prioritizing which projects to do for the current year and the next two years. Since subsequent estimates and the actual cost of the projects tend to be significantly higher than the initial cost estimates, Infrastructure Ontario is not prioritizing projects based on complete cost estimates. This could increase the risk of selecting projects that do not yield the highest cost-benefit.
- Project managers are not held accountable for meeting the original project completion dates. Project managers can revise project completion dates while the project is ongoing and Infrastructure Ontario does not track these dates.
- Over $170 million in office accommodation costs could be saved annually if effective steps are taken to reduce the space occupied per government staff person to comply with the 2012 Office Accommodation Standard of 180 rental square feet per person set by the Ministry of Infrastructure. Neither the Ministry nor Infrastructure Ontario has set a goal for when this standard should be met.
- Almost $19 million was spent in 2016/17 on operating and maintaining 812 vacant buildings. We found that about 600 of the 812 buildings had been vacant for an average of almost eight years. For the other 212 buildings, Infrastructure Ontario could not readily determine when the building became vacant.
- Management at hospitals we spoke to are involved in long-term, ongoing disputes with private-sector companies over interpretations of the maintenance portion of their AFP agreements.

3.12 School Boards' Management of Financial and Human Resources

There are 72 publicly funded district school boards in Ontario responsible for overseeing elementary and secondary education for about 2 million students. In the 2016/17 school year, school boards were allocated $23 billion by the Ministry of

Education, of which the majority was used at the discretion of individual boards.

For the purpose of this audit, we visited four school boards in southern Ontario—Toronto Catholic District School Board, Hamilton-Wentworth District School Board, Halton Catholic District School Board, and Hastings and Prince Edward District School Board.

We found that the boards we visited used funding restricted by legislation for the purposes for which it was provided. However, funding provided for specific purposes, but not restricted by legislation, was not always used for the specific purposes intended. School boards often used a portion of this money for teacher salaries and benefits and special-education program costs. From the 2011/12 to the 2015/16 school year, boards experienced added financial pressures because of an increase in sick days by employees.

The following are some of our specific concerns regarding school boards' management of financial and human resources:

- From the 2011/12 school year to the 2015/16 school year, three of the four boards we visited noted an increase in employee sick days ranging from 11% to 40%. Over the same five-year period, for three boards for which information was readily available, salary costs paid to employees while they were off sick increased by 32% to $42.7 million in the 2015/16 school year.
- The Ministry provides funding for students at risk of low academic achievement through the Learning Opportunities Grant. The boards have discretion on how they can spend much of this funding. We noted that one school board used only 50% of the $46.5 million it received for at-risk students, while the remaining funds were used to support shortfalls in teacher salaries and special-education funding.
- The Ministry provides funding to all English school boards for English as a second language/English literacy development. For the 2015/16 school year, one school board used 58% of the $23.9 million it received for English as a second language students, and the remainder was used to alleviate cost pressures in other areas.
- The *Education Act, 1990* (Act) requires that boards allocate resources to improve student achievement in areas where students are performing below provincial benchmarks. We found that only one of the boards we visited attempted to create smaller classes in schools with lower student achievement. The other boards allocated teaching positions based on meeting provincial class size restrictions.
- All four boards we visited had long lists of students waiting to be assessed or served by professionals in the areas of psychology and speech and language. For three of the four boards, 24% or more of the students on the psychological services wait lists had been waiting for more than a year. In addition, two boards had students waiting more than a year for speech and language assessments.
- None of the four boards we visited completed the two mandatory appraisals for all new teachers within 12 months of being hired, as required under the Act. The lack of timely appraisals impacts the new teachers' ability to receive feedback and seek the timely professional development required to be successful in the profession.

3.13 Settlement and Integration Services for Newcomers

In the last five years, more than 510,000 immigrants settled in Ontario as permanent residents. Many of them need help getting settled—everything from finding housing and work to accessing health care.

The federal government is the primary funder of newcomer settlement services in this province, but the Ontario Ministry of Citizenship and

Immigration (Ministry) also has a mandate to successfully settle and integrate newcomers.

The Ministry funds settlement and integration services that include language training, and bridge training programs to help internationally trained immigrants obtain certification and employment in regulated and highly skilled occupations.

Ministry services are primarily delivered by contracted service providers that include, for example, public and Catholic school boards, universities, colleges and non-profit community organizations.

In 2016/17, the Ministry paid service providers about $100 million to deliver services to over 80,000 individuals who accessed settlement services, over 68,000 people who took language training, and almost 6,000 individuals in bridge training programs.

We noted that the Ministry did not have effective systems and procedures in place to ensure that its service providers consistently provided effective services, although we found that its bridge training program did help many internationally trained newcomers get jobs.

The following are some of our significant findings:

- We found there has been limited co-ordination between the Ministry and the federal government, which is the primary funder of settlement services in Ontario, to avoid duplication of services. We estimate that in 2016/17, about $30 million in Ministry-funded newcomer services were provided to individuals also eligible for services funded by the federal government. The extent to which the Ministry also needs to fund these services is unclear.
- We noted that Ministry funding allocations to each of its settlement and integration services are not determined based on a comparison of the relative need for each service by newcomers. We found funding is not always allocated to the services most needed by newcomers. For example, we noted a decline in the average enrolment for Ministry-funded language training in the last five years, and the amount spent on the program during this period was $24 million less than budgeted. At the same time, funding for the Ministry's bridge training program has decreased over the last five years, from $34.4 million to just $23 million in 2016/17, even though the majority of people who completed bridge training programs found jobs.
- We found that the Ministry did not establish minimum scores that service-provider applicants were required to achieve to qualify for bridge training and newcomer settlement funding. As a result, the Ministry approved and funded several proposals to which it had assigned scores of less than 50%.
- We found that the actual cost per client visit in the newcomer settlement program, and the cost per client employed in the bridge training program, differed significantly among service providers. However, the Ministry does not compare service and financial data reported by providers to assess whether differences are reasonable and providers are operating in a cost-effective manner.
- While the average employment rate among all bridge training program contracts completed in the last three years was 71%, we noted significant differences between programs. For example, many reported that fewer than 40% of their graduates found jobs.

3.14 Social and Affordable Housing

According to Statistics Canada, 1.9 million low-income individuals lived in Ontario in 2016. Low-income individuals are defined as those living in a household whose take-home income is less than half of the median after-tax income of comparably sized households.

Low-income Ontarians who have to pay market rates for rental housing often can have little money left for other essentials such as food, forcing some

of them to live in shelters or housing inadequate for their family's needs.

In response, the Province developed a variety of programs over many years to help these Ontarians attain affordable housing, defined as costing no more than 30% of a household's total pre-tax income.

The biggest such program, governed by the *Housing Services Act* (Act), requires municipalities to provide social housing to about 187,000 households in the province, operated mainly by not-for-profit organizations, co-ops, and municipal housing corporations for which tenants receive benefits so that their rent is equal to 30% of their gross income.

About another 78,000 units, not covered by the Act, offer rents geared to income or at lower-than-market rates. Since 2002, the federal and provincial governments have also jointly funded additional initiatives aimed at increasing the availability of housing for low-income households.

Our audit found that there is no provincial strategy to address growing social housing wait lists or the housing needs of growing numbers of low-income Ontarians. Some specific observations in this audit include:

- Ontario has the largest social housing wait list in the country. There are more people on wait lists for social housing than there are currently occupying social housing. As of December 2016, Ontario's wait list is 185,000 households, representing about 481,000 people, or 3.4% of the province's total population. This represents the highest proportion of any province.
- Wait times are lengthy and growing even longer. Applicants on wait lists can only get a social housing subsidy when a vacancy arises. However, only about 5% of people on wait lists get housing in any given year. Wait times at the service providers we visited ranged from about two years to over nine years.
- Housing is provided on a first-come, first-served basis, not on assessed need. Apart from victims of abuse, who receive priority, there are no other provincial priorities, and thus housing is provided based largely on when an applicant joined the wait list. We noted that British Columbia, for example, assesses factors such as income level, rent paid, and adequacy of current housing conditions. In Ontario, most applicants receive a subsidy generally based on when they joined the wait list; applicants have been known to own assets such as a home, or be living and working in other provinces, while being on Ontario's wait lists.
- Few affordable units have been built since 1996. Despite an increase in demand, only 20,000 below-market units have been built in the last two decades. Governments have not made the building of affordable rental units a priority. Since 1996, 1.3 million new condominium units and houses have been built in the province, but only 71,000 market-rate rental units and 20,000 affordable rentals.
- Affordability challenges are likely to increase over the next 15 years. Contracts with housing providers to offer affordable rents for 83,000 units are beginning to expire (about 50% will have expired by the end of 2020, and the last by 2033). Some housing providers have already increased rents and are converting affordable units (about 20% below-market rent) to market-rent units. The Ministry of Housing does not have complete information on how many affordable units have been lost and what the impact has been on tenants.

Chapter 2

Public Accounts of the Province

1.0 Summary

This year, the audit opinion on the Province's consolidated financial statements is qualified. Based on our audit work, we have concluded that the Province's consolidated financial statements for 2016/17 are fairly presented except for the two items disclosed in the basis-for-qualified-opinion paragraph. The two items are:

- The government overstated the net pension asset relating to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The government inappropriately recognized and consolidated the market account assets and liabilities relating to transactions between power generators and distributors managed by the Independent Electricity System Operator (IESO).

The issuance of a qualified audit opinion should not be taken lightly. In reaching this opinion, the Office of the Auditor General supplemented its own extensive work with external advice.

The government did not record a valuation allowance against the net pension asset relating to the OTPP and the OPSEUPP in its consolidated statement of financial position. As a result, the Province's net debt and accumulated deficit at March 31, 2017, is understated by $12.429 billion (March 31, 2016 – $10.985 billion) and the 2016/17 annual deficit is understated by $1.444 billion (2015/16 – $1.831 billion). The government inappropriately recorded the market account assets and liabilities of the IESO in its consolidated financial statements, resulting in an overstatement of Other Assets and Other Liabilities at March 31, 2017, by $1.652 billion (March 31, 2016 – $1.443 billion) with no effect on the 2016/17 and 2015/16 annual deficits.

We also include an Other Matter paragraph in the auditor's report referencing the fact that the Province's March 31, 2017, consolidated financial statements recognized rate-regulated assets, which is not permitted when applying Canadian Public Sector Accounting Standards (PSAS) to government financial statements. The Other Matter paragraph notes that although the adoption of rate-regulated accounting at the consolidated provincial level did not result in material misstatement in the Province's 2016/17 consolidated financial statements, the statements may become materially misstated in future periods as a result of the legislated accounting prescribed under the *Ontario Fair Hydro Plan Act, 2017*. In our audit opinion, "legislated accounting" refers to the government creating an asset through legislation.

Canadian PSAS are the most appropriate accounting standards for the Province to use in preparing its consolidated financial statements because they ensure that information provided by the government about the surplus and the deficit is fair, consistent and comparable to data from previous years and from peer governments. This allows

all legislators and the public to better assess government management of the public purse. Therefore, the receipt of audit qualifications from the Auditor General for the past two years is a serious matter that should concern legislators and the public.

Annually, we have raised the issue of the government having introduced legislation on a number of occasions to facilitate their establishment of specific accounting practices that may not be consistent with Canadian PSAS. Until now, such actions have not resulted in a material impact on the Province's consolidated financial statements. However, the use of legislated accounting treatments by the government, such as that used to support the accounting/financing design prescribed under the *Ontario Fair Hydro Plan Act, 2017*, could have a material impact on the annual results and become a significant concern to our Office as early as next year. More discussion of this issue can be found in our Special Report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*, tabled in the Legislative Assembly on October 17, 2017.

Additional Issues

The Government's Use of Consultants

We noted the government engaged external advisers to help design the complex accounting/financing structure of the Fair Hydro Plan rate reduction, and sought advice from accounting firms on parts of the transaction. However, despite the recommendation made in our *2016 Annual Report* that any advice obtained from or work performed by external advisers in formulating an accounting position be shared with our Office, the government did not inform us of their advisers' work until we became aware that significant discussions were being held on matters related to the Fair Hydro Plan, and we specifically requested information.

Moving forward, the interests of the Office of the Treasury Board and the Office of the Auditor General will be best served when the work of external advisers, impacting not only the current year's consolidated financial statements of the Province, but those of future years as well, is brought to our attention and discussed on a timely basis.

The Auditor General's Reliance on Component Auditors

As the auditor of the Province's consolidated financial statements, we regard as important the work done by private-sector component auditors, who audit the entities that are consolidated into the government's financial statements. Every year, we issue instructions to specific component auditors in order to obtain information about the audit of their component. We use this information to support our audit opinion on the Province's consolidated financial statements. To promote timeliness, we set deadlines for the responses, and emphasize that any significant or unusual events are to be reported to us as early as possible.

During this year's audit, we experienced significant delays in receiving timely communication from the component auditor of the Independent Electricity System Operator (IESO). This is concerning because we disagreed with changes made to the IESO's accounting policies that are significant not only to the Province's 2016/17 consolidated financial statements, but also to future reporting. Our October 17, 2017, Special Report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money* highlight that these changes were integral to the accounting/financing structure being designed under the Fair Hydro Plan to ensure that the Province's consolidated financial statements would not show the financial impact of the rate reduction in its annual results and net debt.

The transparency and timeliness of communication between the Office of the Auditor General and component auditors must be preserved as the interests of all parties are best served when there is full and open disclosure of significant matters affecting the consolidated financial statements.

The Increasing Debt Burden of the Province of Ontario

The Province's growing debt burden also remains a concern this year, as it has been since we first raised the issue in 2011. This year, as in the past, we focus on the critical implications of the growing debt for the Province's finances. We maintain the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt, and we reaffirm our recommendation that the government develop a long-term debt-reduction plan.

Reduction of the Unfunded Liability of the Workplace Safety Insurance Board

Our *2009 Annual Report* discussed the risk posed at the time to the financial viability of the Workplace Safety Insurance Board (WSIB) by its unfunded liability, which is the difference between the value of the WSIB's assets and its estimated financial obligations to pay benefits to injured workers. In 2009, we also urged the government to reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements, particularly if there were any risks that the Province might have to provide funding to ensure the WSIB remained viable.

In response to our concerns and to the recommendations of the report, the government passed a Regulation under the *Workplace Safety and Insurance Act, 1997* in June 2012 that was effective January 1, 2013, requiring the WSIB to ensure it meets a funding ratio by specified dates. As of December 31, 2016, the WSIB reported a Sufficiency Ratio of 87.4%. This means the WSIB has already achieved its December 31, 2022, funding requirement. As a result of commitments by the government and the WSIB to address the unfunded liability and the progress the WSIB has made so far, we support the exclusion of WSIB's unfunded liability from the Province's liabilities.

Ontario Pre-Election Report Mandate

The *Fiscal Transparency and Accountability Act, 2004* (Act) states, among other things, that in such circumstance as may be prescribed by regulation, the Ministry of Finance shall release a report on Ontario's finances and shall do so before the deadline established by regulation. The purpose of this report is to provide the public with detailed information to enhance its understanding of the Province's estimated future revenues, expenses, and projected surpluses or deficits for the next three fiscal years. According to the *Election Act*, Ontario's next provincial general election will be held on June 7, 2018. Under the *Fiscal Transparency and Accountability Act, 2004* the Auditor General must review the report to determine whether it is reasonable, and release an independent report describing the results of her review. We will work closely with the Ministry of Finance and Treasury Board Secretariat as we prepare for and undertake our review in order to issue our report sufficiently ahead of the June 7, 2018, general election.

This chapter contains 10 recommendations, consisting of 14 actions, to address our observations.

2.0 Background

Ontario's Public Accounts for the fiscal year ending March 31, 2017, were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act*, and the President of the Treasury Board. The Public Accounts consist of the Province's Annual Report, including the Province's consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements for the Province of Ontario and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government

is also responsible for ensuring that an effective system of internal controls, with supporting procedures, is in place to authorize transactions, safeguard assets and maintain proper records.

Our Office, under the *Auditor General Act*, is responsible for the annual audit of these consolidated financial statements. The objective of our audit is to obtain reasonable assurance that the statements are free of material misstatements—that is, free of significant errors or omissions. The consolidated financial statements, along with the Auditor General's Independent Auditor's Report, are included in the Province's Annual Report.

The Province's 2016/17 Annual Report also contains a Financial Statement Discussion and Analysis section that provides additional information regarding the Province's financial condition and fiscal results for the year ended March 31, 2017. Providing such information is intended to enhance the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- **Volume 1**—unaudited statements from all ministries and a number of schedules providing details of the Province's revenue and expenses, its debts and other liabilities, its loans and investments, and other financial information;
- **Volume 2**—audited financial statements of significant provincial corporations, boards and commissions whose activities are included in the Province's consolidated financial statements, as well as other miscellaneous audited financial statements; and
- **Volume 3**—detailed unaudited schedules of ministry payments to vendors and transfer-payment recipients.

Our Office reviews the information in the Province's Annual Report, and in Volumes 1 and 2 of the Public Accounts, for consistency with the information presented in the Province's consolidated financial statements.

The *Financial Administration Act* requires that, except in extraordinary circumstances, the government deliver its Annual Report to the Lieutenant Governor in Council within 180 days of the end of the fiscal year. The deadline for this year was September 27, 2017. The three supplementary volumes must be submitted to the Lieutenant Governor in Council within 240 days of the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if the Assembly is not in session, make the information public and then lay it before the Assembly within 10 days of the time it resumes sitting.

This year, the government released the Province's 2016/17 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes on September 7, 2017, meeting the legislated deadline.

The Auditor General's audit opinion on the Province's consolidated financial statements was qualified for two accounting treatments that did not conform to Canadian PSAS.

The first qualification relates to the government's accounting for its calculated net pension asset of $12.429 billion for two pension funds it co-sponsors, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. As a result, the annual deficit is understated by $1.444 billion for 2016/17 ($1.831 billion in 2015/16) and the net debt and accumulated deficit are understated by $12.429 billion for 2016/17 ($10.985 billion in 2015/16).

The second qualification relates to the government inappropriately recording the market account assets and liabilities relating to transactions between power generators and distributors managed by the Independent Electricity System Operator, in its consolidated financial statements. As a result, Other Assets and Other Liabilities are overstated by $1.652 billion ($1.443 billion in 2015/16).

A qualified opinion in the public sector should be considered just as serious as a qualified audit opinion received by a publicly traded corporation.

The qualified audit opinion on the Province's consolidated financial statements is discussed in **Section 3.0**.

3.0 The Province's 2016/17 Consolidated Financial Statements

3.1 Auditor's Responsibilities

As the Legislature's independent auditor of the Province's consolidated financial statements, the Auditor General's objective is to express an opinion on whether the financial statements are free of material misstatements and are prepared in accordance with Canadian PSAS so that they give a true and fair view of the financial position and results of the Province. It is this independence, combined with the professional obligation to comply with established Canadian Auditing Standards and relevant ethical requirements, which allows the Auditor General to issue an opinion that provides users with confidence in the Province's consolidated financial statements.

To enable the Auditor General to form her opinion, our Office collects sufficient appropriate audit evidence and evaluates it to determine whether the financial statements are free of material misstatements. This includes assessing the government's preferred accounting treatment over certain transactions and analyzing the appropriateness of those treatments under Canadian PSAS.

An assessment of what is material (significant) and immaterial (insignificant) is based primarily on our professional judgment. In making this assessment, we seek to answer the following question: "Is this error, misstatement or omission significant enough that it could affect decisions made by users of the Province's consolidated financial statements?" If the answer is yes, then we consider the error, misstatement or omission as material.

To help us make this assessment, we determine a materiality threshold. This year, as in past years, and consistent with most other auditors in provincial jurisdictions, we set our threshold at 0.5% of the greater of government expenses or revenue for the year.

Our audit is conducted on the premise that management has acknowledged certain responsibilities that are essential to the conduct of the audit in accordance with Canadian Auditing Standards. These responsibilities are discussed below.

3.2 Management's Responsibilities

The auditor's report distinguishes between the responsibilities of management and of the auditor with respect to a financial statement audit. Management is responsible for the preparation of the financial statements in accordance with Canadian PSAS. The auditor examines the financial statements in order to express an opinion as to whether the financial statements have been prepared in accordance with Canadian PSAS. The division of responsibility between management and the auditor is fundamental and preserves the auditor's independence, a cornerstone of the auditor's report.

In addition to the preparation of the financial statements and having the relevant internal controls, management is also required to provide the auditor with all information relevant to the preparation of the financial statements, additional information that the auditor may request, and unrestricted access to individuals within the entity who the auditor determines are necessary to obtain audit evidence. Canadian Auditing Standards are clear on these requirements, and the fulfilment of these is formally communicated to the auditor in the form of a signed management representation letter at the end of the audit.

When a transaction occurs, it is management's responsibility to identify the applicable accounting standards, determine the implications of the standards on the transaction, decide on an accounting policy and ensure that the financial statements

present the transaction in accordance with the applicable financial reporting framework (e.g., Canadian PSAS for governments). The auditor must also be proficient in the applicable financial reporting framework in order to form an independent opinion on the financial statements, and may perform similar procedures in identifying the applicable standards and understanding the implications of the standards on the accounting transaction. However, unlike management, the auditor does not select an accounting policy or the bookkeeping entries for the organization. These decisions are in the hands of management—in Ontario's case, Treasury Board Secretariat and the Ministry of Finance, both with support from the Office of the Provincial Controller Division.

When there are disagreements between an auditor and management on the application or adequacy of accounting policies, the auditor must assess the materiality or significance of the issue to the overall financial statements in forming the audit opinion. If the issue is material, it would result in a qualified opinion in which the auditor concludes that the financial statements are fairly presented except for the items described in the basis for the qualification. Again, this distinguishes the role of management and auditor such that the auditor examines the financial statements to express an opinion, whereas management prepares the financial statements.

The Office of the Auditor General may make suggestions about the consolidated financial statements but this does not change management's responsibility for the financial statements. Similarly, the government may seek external advice on accounting treatments of certain transactions. In such situations, the government still has the ultimate responsibility for the decisions made, and the use of external advisers does not diminish, change or substitute the government's accountability as the preparer of the Province's consolidated financial statements.

3.3 The Independent Auditor's Report

The auditor's report, which is issued at the conclusion of an audit engagement, is comprised of:

- an introductory paragraph that identifies the financial statements audited;
- a description of the responsibility of management for the proper preparation of the financial statements in accordance with the applicable financial reporting framework;
- a description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit; and
- an opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.

The auditor's report may further include:

- an Emphasis of Matter paragraph that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements; and
- an Other Matter paragraph that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report.

3.4 The Significance of a Qualified Audit Opinion

The independent auditor's report is the way the auditor communicates their opinion to the users of the financial statements as to whether the financial statements of an entity are presented fairly. After the audit of the financial statements is completed, the auditor can sign one of four possible opinions:

- **Unqualified, or clean, opinion:** The financial statements present fairly, in all material

respects, the financial position and results of the entity.

- **Qualified opinion:** The statements contain one or more material misstatements or omissions.
- **Adverse opinion:** The statements do not fairly present the financial position, results of operations and changes in financial position, as per generally accepted accounting principles.
- **No opinion:** It is not possible to give an opinion on the statements because, for example, key records of the entity were destroyed and thus unavailable for examination.

An *unqualified* audit opinion indicates financial statements are reliable. When an auditor issues a *qualified* opinion, he or she is expressing concern about the entity's compliance with the accounting standards issued by the standard setter (e.g., the Public Sector Accounting Board), or about the auditor's ability to obtain sufficient and appropriate information on the financial statements.

An audit qualification is generally a rare occurrence. In fact, the audit opinions on the consolidated financial statements of the Province were not qualified for 22 years. The audit opinion on the Province's March 31, 2017, consolidated financial statements is qualified because the Province's consolidated financial statements do not comply with Canadian PSAS, reflecting the Auditor General's concern about the fair presentation of the Province's consolidated financial statements.

3.5 The 2016/17 Audit Opinion

The *Auditor General Act* requires that we report annually on the results of our examination of the Province's consolidated financial statements. The Independent Auditor's Report to the Legislative Assembly on the Province's Consolidated Financial Statements for the year ended March 31, 2017, is reproduced on the following pages.

3.6 The Reasons for the Qualified Audit Opinion

This year, the audit opinion on the Province's consolidated financial statements is qualified.

Based on our audit work, we have concluded that the Province's consolidated financial statements for 2016/17 are fairly presented except for the two items disclosed in the basis-for-qualified-opinion paragraph. The two items are:

- The government overstated the net pension asset relating to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The government inappropriately recognized and consolidated the market account assets and liabilities relating to transactions between power generators and distributors managed by the Independent Electricity System Operator (IESO).

3.6.1 Net Pension Asset Overstated

Net Pension Asset and the Consolidated Financial Statements

As at March 31, 2017, the government reported net pension assets from the OTPP of $11.511 billion (2015/16 – $10.147 billion) and from the OPSEUPP of $0.918 billion (2015/16 – $0.838 billion), for a total of $12.429 billion (2015/16 – $10.985 billion). However, a full valuation allowance against the pension assets should have been recorded in order to comply with Canadian PSAS. Recording a full valuation allowance would require the net pension asset reported on the consolidated statement of financial position to be reduced by $12.429 billion (2015/16 – $10.985 billion), resulting in a net pension liability of $1.396 billion (2015/16 – $1.673 billion) being reported. This is illustrated in **Figure 1**.

The effect on the consolidated statement of operations of recording the full valuation allowance against the net pension asset for the OTPP and the OPSEUPP would increase the Province's reported annual deficit by $1.444 billion (2015/16 – $1.831 billion).

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of Ontario

I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations, change in net debt, change in accumulated deficit and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Government of Ontario (Government) is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as the Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Government, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

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Basis for Qualified Opinion

Net Pension Asset Overstated, Annual Deficit Understated, Net Debt Understated and Accumulated Deficit Understated

As described in Note 16a to these consolidated financial statements, a net pension asset is recorded on the Consolidated Statement of Financial Position relating to the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. However, the Government does not have the unilateral legal right to use this asset because its ability to reduce future minimum contributions or withdraw any pension plan surplus is subject to agreement with the respective pension plans' joint sponsors. Canadian public sector accounting standards require the Government to record a valuation allowance against this asset.

The Government did not record a valuation allowance for this net pension asset at March 31, 2017. The Government also retroactively restated the March 31, 2016 comparative figures to exclude the valuation allowance previously included in the prior year's consolidated financial statements. This departure from Canadian public sector accounting standards has led me to express a qualified opinion on the consolidated financial statements for the year ended March 31, 2017 and on the March 31, 2016 comparative figures.

The recommendations of the Government's appointed Pension Asset Advisory Panel are not an authoritative source on the application of Canadian public sector accounting standards as implied in Note 16a to these consolidated financial statements.

Effect on Consolidated Statement of Operations

If the Government had correctly recorded the valuation allowance against the net pension asset for the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan, the effect on the consolidated statement of operations for the years ended March 31, 2017 and 2016 would have been as follows:

	2017 ($ million)	2016 ($ million)
Annual deficit as presented	(991)	(3,515)
Effect of valuation allowance on:		
• Education expense	(1,364)	(1,480)
• General Government and Other expense	(80)	(351)
Annual deficit in accordance with Canadian public sector accounting standards	**(2,435)**	**(5,346)**

Effect on Consolidated Statement of Financial Position

If the Government had correctly recorded the valuation allowance against the net pension asset for the Ontario Teachers' Pension Plan and the Ontario Pubic Service Employees' Union Pension Plan, the effect on the consolidated statement of financial position as at March 31, 2017 and 2016 would have been as follows:

	2017 ($ million)	2016 ($ million)
Net pension asset as presented	11,033	9,312
Effect of valuation allowance	(12,429)	(10,985)
Net pension liability in accordance with Canadian public sector accounting standards	**(1,396)**	**(1,673)**

	2017 ($ million)	2016 ($ million)
Net debt as presented	(301,648)	(295,372)
Effect of valuation allowance	(12,429)	(10,985)
Net debt in accordance with Canadian public sector accounting standards	**(314,077)**	**(306,357)**

	2017 ($ million)	2016 ($ million)
Accumulated deficit as presented	(193,510)	(192,029)
Effect of valuation allowance	(12,429)	(10,985)
Accumulated deficit in accordance with Canadian public sector accounting standards	**(205,939)**	**(203,014)**

Inappropriate Consolidation of Independent Electricity System Operator (IESO) Market Accounts

As described in Note 16c to these consolidated financial statements, the IESO changed its accounting policy and applied it retroactively to recognize market account assets and liabilities. The market accounts track mainly buy and sell transactions between market participants (electricity power generators and power distributors). These market accounts, as recorded on the Province of Ontario's consolidated financial statements are not assets and liabilities of the Province of Ontario. The Government has no access or discretion to use the market account assets for their own benefit, nor does the Government have an obligation to settle the market account liabilities in the event of default by market participants. As a result, Other Assets and Other Liabilities are both overstated by $1.652 billion (2016 – $1.443 billion). There is no effect on the Consolidated Statement of Operations.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2017, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

Use of Rate-regulated Accounting May Cause a Material Misstatement on the Consolidated Financial Statements of the Province of Ontario

I draw attention to Note 16c to these consolidated financial statements, which describes the Independent Electricity System Operator's retroactive adoption of rate-regulated accounting during the year. The recognition of rate regulated assets on the consolidated financial statements of the Province of Ontario is not permitted when applying Canadian public sector accounting standards. This departure does not have a material impact on the Province of Ontario's consolidated financial statements for the year ended March 31, 2017 and my opinion is not modified in respect of this matter. However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the *Ontario Fair Hydro Plan Act, 2017* (Fair Hydro Plan) and its related regulations as it is not in accordance with Canadian public sector accounting standards.

Financial Statement Discussion and Analysis

I draw attention to the Province of Ontario's Financial Statement Discussion and Analysis that discusses the Province of Ontario's financial results without properly reflecting the valuation allowance required in respect of the net pension asset and the recognition of market accounts, as discussed in the Basis for Qualified Opinion paragraphs above.

Toronto, Ontario
August 18, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Figure 1: Pension Asset (Liability) as at March 31, 2017

Sources of data: March 31, 2017, Province of Ontario Consolidated Financial Statements and Office of the Auditor General of Ontario

	2017 Pensions ($ million)	2016 Pensions ($ million)
Obligation for benefits	124,700	118,448
Less: plan fund assets	(149,851)	(140,834)
Obligation over/(under) plan assets	**(25,151)**	**(22,386)**
Unamortized actuarial gains	14,104	13,074
Accrued pension asset	**11,047**	**9,312**
Valuation allowance	(14)	–
Net pension asset (liability)[1]	**11,033**	**9,312**
Additional valuation allowance[2]	(12,429)	(10,985)
Net pension asset (liability)[3]	**(1,396)**	**(1,673)**

1. As presented in the March 31, 2017, Province of Ontario consolidated financial statements.
2. Valuation allowance recorded against the accrued pension asset of the Ontario Teachers' Pension Plan $11.511 billion (2015/16, $10.147 billion) and Ontario Public Service Employees Union Pension Plan $0.918 billion (2015/16, $0.838 billion).
3. In accordance with Canadian Public Sector Accounting Standards.

Discussion of the Accounting Treatment of a Pension Asset under Canadian PSAS

A net pension asset generally arises when the government's total contributions to a plan (plus interest earned thereon) are greater than the pension expense recognized for employee service since the plan's inception.

Canadian PSAS limit the carrying amount of the pension asset. The limit requires a government to record a valuation allowance for any excess of the pension asset over the government's "expected future benefit." In other words, the limit calculation caps the pension asset at an amount equal to the government's expected future benefit. Subsequent changes in a valuation allowance are recorded in the consolidated statement of operations in the period in which the change occurs.

A government's expected future benefit is the benefit a government expects to realize from a pension plan's surplus. The benefit can be in the form of reductions in future required contributions or cash withdrawal of the surplus.

Canadian PSAS provide guidance on the factors to consider in determining whether a benefit should be included in the calculation of a government's expected future benefit. The expected future benefit excludes any surplus withdrawals to which the government is not currently entitled, such as those subject to the approval of employees, an appropriate regulatory authority, or, where no such approval has been granted, a court of law.

The standards specifically state that a government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. The same concepts are applicable when determining the government's ability to reduce its future minimum contributions.

After reviewing the agreements governing the jointly sponsored pension plans in 2015/16, we, along with our expert advisers, determined that the government does not have the unilateral right to reduce contributions without reaching a formal agreement with the plans' other joint sponsors. As a result, we concluded that the government did not have a legally enforceable right to benefit from the pension assets because agreement from the other joint sponsors was not obtained in 2015/16. We arrived at the same conclusion in 2016/17.

For greater certainty, we also examined whether the pension assets met the definition of an asset laid out in the financial statement concepts that underpin all Canadian PSAS. This guidance defines assets as economic resources controlled by a government as a result of past transactions or events, and from which it expects to obtain future economic benefits.

The three essential characteristics of assets are:

- They must embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
- The government can control the economic resource and access to the future economic benefits.
- The transaction or event giving rise to the government's control has already occurred.

The first characteristic could potentially be met as the pension asset offers the potential for either future cash inflows in the form of approved surplus withdrawals or reduced cash outflows in the form of reductions in future contributions. A further option is that benefits could be increased to members, but in this case, the benefit would flow to the plan members, not the government.

However, the second characteristic is not met, because the government does not control access to the benefits of the plan surplus, including taking any unilateral actions to change its contribution amounts, taking contribution holidays, or withdrawing surplus. Under both plan agreements, these actions require negotiation and agreement between the two joint sponsors. No transaction or event has occurred to give the government this legally enforceable right and, as a result, the government has neither control nor access to the assets. As a result, the third characteristic also is not met.

Therefore, we, along with our expert advisers, concluded that the net pension asset reported by the Province relating to the OTPP and the OPSEUPP was overstated as at March 31, 2017, and March 31, 2016. In other words, because the government cannot access these pension plans' surpluses (as it has not obtained the agreement from the plans' other joint sponsors to use these surpluses), the recognition of a net pension asset relating to these plans without a valuation allowance contravenes Canadian PSAS.

Applying Canadian PSAS requires an adjustment to recognize a valuation allowance against the total amount of pension assets reported by the OTPP and the OPSEUPP to reflect the expected future benefit. The expected benefit, in this case, is the reduction of future contributions related to the annual costs of the plans. Specifically, according to PSAS section PS 3250.056:

> A government determines its expected future benefit as the sum of:
>
> (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
>
> (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

This is also consistent with the application of the fundamental concepts in Canadian PSAS for the recognition of assets in general.

The government appointed a pension asset advisory panel that provided the government advice on the interpretation of Canadian PSAS regarding the pension assets. We disagree with the panel's conclusion that the government could record a pension asset for the two pension funds it co-sponsors, the OTPP and the OPSEUPP, without recording a valuation allowance. We further note that this government-appointed panel is not an authoritative source on the application of Canadian PSAS.

In order to remove the audit qualification relating to the net pension asset recorded in the Province's consolidated financial statements, we

would need a signed negotiated agreement from the other joint sponsors of those plans as evidence that the government has a pension asset that it can benefit from today. The government did not record a valuation allowance as required under Canadian PSAS to reduce the net pension asset it reported on its consolidated statement of financial position.

RECOMMENDATION 1

We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat does not agree with the recommendation.

3.6.2 Inappropriate Consolidation of the IESO's Market Accounts

We also qualified our 2016/17 audit opinion on the Province's consolidated financial statements as the Province inappropriately recorded market accounts (that are not assets and liabilities of the Independent Electricity System Operator (IESO) or the Province) through the consolidation of the financial results of the IESO without first conforming the IESO's results to be in accordance with Canadian PSAS.

The IESO is classified as an Other Government Organization (OGO) under the provisions of Canadian PSAS, which state that the financial results of an OGO must be conformed to Canadian PSAS prior to consolidation in the government's consolidated financial statements. The market accounts recorded on the IESO's financial statements do not meet the definitions of an asset or liability within Canadian PSAS from the perspective of the Province's consolidated financial statements.

The IESO, an Ontario provincial government organization, is responsible for operating the electricity market and contracting with independent electricity generators to supplement the electricity provided by Ontario Power Generation Inc. (OPG). Generators and importers supply power into the bulk electricity system to be available to consumers and exporters, including private and municipal distributors such as Power Stream Inc. and the Toronto Hydro-Electric System Ltd. The distributors monitor consumption of electricity by metering their customers' consumption.

Generators generally do not know who is consuming the power they supply to the grid, and distributors generally do not know who they are purchasing their supply from, because they simply access the electricity supply from the grid. The IESO performs the function of a facilitator for settling transactions between electricity market participants such as power generators and electricity distributors, rather than having market participants settle transactions directly with each other. The buyers are the local distribution companies, exporters and large, directly-connected consumers, and the sellers are the power generators and importers.

Market Rules for the Ontario Electricity Market (Market Rules) provide a framework for the operation of the market and the determination of charges payable or receivable from market participants. The IESO's role, as per Ontario Regulation 288/14, is to operate the IESO-administered markets to promote the purposes of the *Ontario Electricity Act, 1998* (Act) and engage in activities related to settlements and payments under contracts entered into under the authority of the Act and payments provided for under the Act or the *Ontario Energy Board Act, 1998*.

To facilitate the flow of cash from the distributors to the generators, the IESO established a number of accounts called Market Accounts, which represent the amounts due from the distributors,

and the amounts owing to the generators. The Market Accounts presented in the IESO financial statements are the point-in-time balances (assets and liabilities) which result from the settlement process between the distributors and the generators. The Market Account assets and liabilities consist of cash restricted for the market activities, a revolving line of credit, interest receivable/payable, due to/from market participants' accounts, and HST receivable.

Based on the Market Rules, the IESO has no role in promoting the interests of one party over another, is not specifically engaged as an agent in economic terms on behalf of any party, and does not have an economic interest in the ultimate consummation of any transaction. The IESO indicates in its public communications that it is the independent administrator of the market. The IESO's Market Rules contain terms that specify its relationship to market participants, and the IESO is not considered a counter-party to the transactions between market participants.

Furthermore, the IESO's Market Rules contain terms that specify the IESO's relationship to market participants and its exposure to financial risks within the Market Accounts.

Specifically, Chapter 9, Section 6.9.2, of the Market Rules states: "The IESO shall not be a counter-party to any trade transacted through the real-time markets." In this term, "trade" is not specifically defined, but is meant to be generic to refer to transactions within the real time market between market participants that are facilitated by the IESO.

Chapter 9, Section 6.16.2, states that subject to the provisions of Section 6.14, "the IESO shall not be liable to make payments in excess of the amount it receives for transactions in the real-time markets."

Section 6.14 addresses remedies of default of a market participant. In summary, the IESO has recovery mechanisms for a default of payment by a market participant, and if those recoveries cannot be made by the specific defaulting market participant, then the funds owed to creditors will be collected from the remaining market participants on a pro-rata basis.

The IESO has no responsibility to settle the market account liabilities in the event of default by market participants, nor does it have any inventory risk related to distributing the electricity to the LDCs or ratepayers.

Canadian PSAS outline the definition and characteristics of an asset in Section PS 3210:

> ".03 Assets are economic resources controlled by a public sector entity as a result of past transactions or events and from which future economic benefits are expected to be obtained.
>
> .04 Assets have three essential characteristics:
>
> (a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
>
> (b) The public sector entity can control the economic resource and access to the future economic benefits.
>
> (c) The transaction or event giving rise to the public sector entity's control has already occurred.
>
> .05 Economic resources are not assets unless they meet the three characteristics of assets."

As demonstrated above, there is no economic benefit that accrues to IESO.

Similarly, Section PS 3200 outlines the definition and characteristics of a liability under Canadian PSAS:

> .05 Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

> (a) they embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;
>
> (b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
>
> (c) the transactions or events obligating the government have already occurred.
>
> .06 Obligations are not liabilities unless they meet the three characteristics of liabilities.

As demonstrated above, the IESO is not liable for any shortfall in cash flows occurring in the period.

Similar to the IESO, the Province has no access/discretion to use the Market Account assets for its own benefit; nor does the Province have an obligation to settle the Market Account liabilities in the event of default by market participants. As such, the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province's consolidated financial statements.

RECOMMENDATION 2

We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat does not agree with the recommendation.

3.7 The Reasons for the Other Matter Paragraph

In addition to the two qualifications to our 2016/17 audit opinion on the Province's consolidated financial statements, we outlined in an Other Matter paragraph that the Province had inappropriately adopted rate-regulated accounting as set out by the U.S. Financial Accounting Standards Board (FASB) in its Accounting Standards Codification 980, Regulatory Operations (ACS 980) under Canadian PSAS.

We arrived at this conclusion because:

- Canadian PSAS is silent on the application of rate-regulated accounting concepts to an OGO or to a government. Canadian PSAS, like other international public-sector standard-setters, must give permission to use rate-regulated accounting. Within PSAS there is no such permission.
- All other accounting standard-setters, including those in the United States, allow for the use of rate-regulated accounting by specifically indicating its use is permitted. That permission usually restricts the adoption of rate-regulated accounting to specific types of government business entities, such as public electric utilities.
- Rate-regulated accounting is not consistent with the primary sources of Canadian generally accepted accounting principles (GAAP) or the concepts set out in Canadian PSAS as required by Section PS 1150, *Generally Accepted Accounting Principles*.
- The IESO and the provincial government are neither government business enterprises nor governmental electric utilities. In Canada, only governmental electric utilities that are considered government business enterprises can use rate-regulated accounting.
- Organizations cannot select individual accounting policies from secondary sources of GAAP without considering the overall environment for which the underlying standards were created.

- The terms and conditions of the contracts entered into by the IESO that are subject to the *Ontario Fair Hydro Plan Act, 2017* were not subject to rate-regulation by the Ontario Energy Board, the Province's regulator. The recovery of IESO's costs of operating the real-time market is not a rate-regulated activity; rather, the Ontario Energy Board determines the fees to be added to the electricity price to allow the IESO to recover its administration costs.

The IESO is classified as an OGO under provisions of Canadian PSAS which state that the financial results of an OGO must be conformed to Canadian PSAS prior to consolidation into the government's financial statements. By consolidating rate-regulated balances recorded in the IESO's financial results without conforming to Canadian PSAS, the government is implying that accounting provisions for rate-regulated accounting found in the FASB ASC 980 can be applied to the Province's consolidated financial statements.

In general, the most widely adopted government accounting standards do not allow governments to create assets and liabilities in their financial statements through the application of rate-regulated accounting. The use of rate-regulated accounting derived from legislation in financial statements prepared using Canadian PSAS would allow governments to manipulate their bottom line to disclose whatever financial result they desire, and would render public reporting of government financial results useless.

The IESO pointed to the GAAP hierarchy outlined in Canadian PSAS Section PS 1150 in adopting the accounting provisions in FASB ASC 980 in its December 31, 2016, financial statements. FASB issues the GAAP that are followed by private-sector entities in the United States.

As the Ontario Government said in a technical briefing on October 17, 2017, regarding the IESO adopting the provisions of U.S. GAAP ASC 980, Section PS 1150.07 of Canadian PSAS states:

> .07 No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances.

However, Section PS 1150 also notes that a public-sector reporting entity should adopt accounting policies and disclosures that are consistent with the primary sources of GAAP and the PSAS Conceptual Framework. Canadian PSAS Section PS 1150 goes on to describe and name other sources of GAAP, and outlines the concept that the government reporting entity should look to the most relevant secondary sources of GAAP when applying the GAAP Hierarchy.

3.7.1 Canadian PSAS Do Not Permit Rate-Regulated Accounting

Canadian PSAS do not explicitly state that rate-regulated accounting is not allowed; however, the concepts of rate-regulated accounting are not in line with other primary sources of GAAP or the PSAS Conceptual Framework. The silence of Canadian PSAS on rate-regulated accounting means that rate-regulated accounting is not permitted. All other standard-setters for government that allow the use of rate-regulated accounting explicitly permit the use of rate-regulated accounting for certain types of entities.

However, Canadian PSAS allows government business enterprises, such as Ontario Power Generation (OPG) who are more like private-sector businesses in that they sell goods and services and are self-sustaining from the revenue they receive

from those sales, to use rate-regulated accounting. In this case, PSAB specifically exempts OPG from applying Canadian PSAS, and requires it to apply International Financial Reporting Standards (IFRS). This is a specified exemption from applying Canadian PSAS.

Further, some not-for-profit organizations such as universities, colleges and hospitals are specifically permitted by Canadian PSAS—but not required—to apply other standards that may or may not be consistent with the accounting concepts and principles under Canadian PSAS. This is another example of a specified exemption under Canadian PSAS. Given this exemption, a not-for-profit organization's financial statements can still be said to be prepared in accordance with Canadian PSAS.

For governments and government organizations applying Canadian PSAS, there is no specific permission or exemption to use rate-regulated accounting. The only time such permission is given by Canadian PSAS is when a government organization, by exemption, has chosen to prepare its financial statements in accordance with IFRS, and the specific criteria for applying rate-regulated accounting are met under those standards.

It is our view that rate-regulated accounting is not permitted when a government or a government-controlled organization presents its financial statements in accordance with Canadian PSAS.

This view is and has been supported by many public-sector accounting experts in Canada, including Auditors General across Canada, private accounting firms, and others, such as the recently retired Director of the Public Sector Accounting Standards Board, who have extensive experience in developing and applying Canadian PSAS.

The international public-sector standard-setters share the same view that a government's inherent ability to raise revenue in the future is not an asset today. The International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework, BC5.18, states: "A government's power to establish a right to levy a tax or fee, for example, often begins a sequence of events that ultimately results in the flow of economic benefits to the government." In particular, the IPSASB concluded that "a government's inherent powers do not give rise to assets until these powers are exercised and the rights exist to receive service potential or economic benefits."

In the context of accounting for public-sector entities, this view is even supported in the United States the jurisdiction cited by the IESO.

The Federal Accounting Standards Advisory Board (FASAB), which issues accounting standards for the federal government, states in its Statement of Federal Financial Accounting Concepts 5 (SFFAC 5) *Elements*, paragraph 34:

> The government's intent or ability to acquire a resource in the future does not create an asset. For the resource to qualify as an asset, the government already must have acquired the resource or otherwise obtained access to the economic benefits or services it embodies to the exclusion of other entities. For example, the mere existence of the government's power to tax is not an asset because, until the government has exercised that power by imposing a tax and has access to benefits by virtue of completion of a taxable event, no event has occurred to generate resources and there are no resulting economic benefits that the government can control and use in providing programs and services.

The Governmental Accounting Standards Board (GASB), which issues standards for U.S. state and local governments, states in its Concept Statement no. 4 – *Elements of Financial Statements*, paragraph 11:

> The power to tax is a distinguishing characteristic of government. Because governments are formed to provide services, frequently irrespective of the ability of specific individuals to pay for those services, governments are often established with the power to tax. That power, while

central to the function of many governments, does not constitute an asset of those governments with that power. A government's power to tax may be considered one of the government's most important resources (that is, a means that can be drawn on), but it is not an asset of the government because the power to tax does not have present service capacity. The power to tax produces an asset for accounting and financial reporting purposes only when the power to tax is exercised and an enforceable tax levy or a taxable transaction occurred, as applicable, has resulted in a resource with present service capacity—taxes receivable.

In 2002, the former Canadian Institute of Chartered Accountants (now CPA Canada) published a research report titled *Financial Reporting by Rate-Regulated Enterprises* that had been jointly commissioned by the Canadian Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB). The report study group was comprised of representatives from the private sector and the public sector, including the then Provincial Controller of Ontario and a representative from the Ontario Energy Board.

Chapter 8 of this 2002 report specifically addressed whether rate-regulated accounting could be applied to the public sector. With respect to the public sector, the research report noted that rate-regulated accounting should only be applied to Government Business Enterprises (GBEs). The report stated: "By inference, although it is not specifically stated in the Public Sector Accounting Handbook, except for GBEs, rate-regulation does not apply to the public sector."

The study group concluded that the scope of public-sector activities that may be considered "rate-regulated" for financial-reporting purposes should be limited to government business enterprises that meet the criteria for qualifying as a rate-regulated enterprise. In our view, the conclusions of the report still apply today.

It has been asserted that rate-regulated accounting is a generally accepted practice. Clearly, there are a number of private and public utilities that use this accounting. However, for the purposes of the Canadian public sector, the use of rate-regulated accounting can only be applied when the organization is a government business enterprise such as Ontario Power Generation, or if the organization chooses to adopt IFRS in preparing its financial statements. Rate-regulated accounting under Canadian PSAS is only permitted when the organization is directed to IFRS, or the organization has chosen to adopt IFRS (where permitted), for the purposes of its own financial statements. The Province does not apply IFRS and, for non-government business enterprise organizations that do, any difference arising between IFRS and PSAS must be adjusted when the Province consolidates such organizations.

3.7.2 U.S. Government Generally Accepted Accounting Standards Permit Rate-Regulated Accounting Only for Government Business Enterprises

The Ontario government pointed out in its technical briefing to media on October 17, 2017, that, whereas the provisions of Canadian accounting standards are principles-based, the provisions of U.S. GAAP are rules-based. The provisions of U.S. GAAP are generally prescriptive in nature. When referring to U.S. GAAP for guidance in developing accounting policies under the hierarchy outlined in Canadian PSAS Section PS 1150, the Province cannot choose which U.S. GAAP rules it wishes to follow, while ignoring other pertinent rules.

As noted above, the Financial Accounting Standards Board (FASB) issues private-sector accounting standards in the U.S. When determining whether a government or government entity can adopt the provisions of U.S. GAAP for rate-regulated accounting (FASB's ASC 980), the most relevant sources of GAAP are the public-sector accounting boards of the United States, including

the Federal Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB). FASB's accounting standards cannot be read in isolation of the application of the FASAB or GASB accounting standards.

Both FASAB and GASB restrict the use of FASB's rate-regulated accounting standards to government business enterprises (GBEs). Neither FASAB nor GASB permit the U.S. federal government, state or local governments, or other governmental organizations (other than GBEs) to adopt rate-regulated accounting.

When looking to other international government accounting standard setters, the accounting provisions issued by the International Public Sector Accounting Standards Board (IPSASB) are the most relevant. While the IPSASB permits certain organizations to adopt IFRS, which contain provisions for applying rate-regulated accounting, the effects are removed for the purposes of a government issuing its own financial statements.

3.7.3 Rate-Regulated Accounting Provisions Require an Independent Regulator in Most Cases, Including under Ontario's Regulatory Framework

When issuing a new accounting standard, standard-setters often publish a companion document referred to as the "basis of conclusions." This document provides a more detailed background of discussions that went into setting the new standard and, in some cases, further interpretation of the accounting provisions within that new standard.

In the basis of conclusions for ASC 980 (paragraph 64), FASB notes that ASC 980 does not preclude a governmental utility from adopting the provisions of ASC 980. However, the Province of Ontario is not a governmental utility, and neither is the IESO. Although ASC 980 does not preclude U.S. governmental utilities from adopting rate-regulated accounting, the permission for a governmental utility to adopt these provisions in the U.S. comes from FASAB or GASB (that is, the governmental utility must be a GBE).

Even with the permission to adopt the provisions of ASC 980, a governmental utility must still meet the required criteria for adoption set out in those provisions. These criteria include the requirement for regulated activities to be approved by an independent third-party regulator, except when an entity has been given statutory or contractual authority to establish rates that bind customers. Ontario does not have any governmental utilities that have the statutory or contractual authority to establish rates that bind its customers. The Ontario Energy Board regulates the majority of OPG's electricity generation operations and all of Hydro One's transmission and distribution operations.

Under ASC 980, in a rate-setting model where a regulator sets the electricity rates (as is the case in Ontario with the OEB), that regulator must be independent from the regulated entity in order to apply rate-regulated accounting. As outlined in the basis of conclusions for ASC 980, paragraph 62, "the first criterion is the existence of third-party regulation."

At the Province of Ontario consolidated level, the IESO and OEB are related parties through common control by the Province. As such, the third-party independent relationship required in order to adopt the provisions of ASC 980 does not exist. Therefore, although we believe that the IESO should not record rate-regulated balances, any rate-regulated balance that would be included in the IESO's financial results would have to be eliminated prior to consolidation into the Province's financial statements.

3.7.4 The Contracts to be Smoothed under the Ontario Fair Hydro Plan Are Specifically Excluded from Applying Rate-Regulated Accounting Provisions

The Other Matter paragraph in our Auditor's Report noted that although the adoption of rate-regulated accounting at the provincial level did not result in material misstatement in the Province's 2016/17 consolidated financial statements, the amounts may become materially misstated in future periods

as a result of the *Ontario Fair Hydro Plan Act, 2017* (Act). This statement was based on the estimated annual borrowing required to fund the cash shortfall from applying the rate discount outlined in the Fair Hydro Plan, and the fact that the provisions of U.S. GAAP ASC 980 do not apply to the contracts that are being considered in the Global Adjustment account smoothing plan, not only at the provincial consolidated-financial-statement level but also at the IESO financial-statement level.

The Act refers to the Global Adjustment costs that are to be smoothed under the Fair Hydro Plan as a "clean energy benefit." The renaming of these costs to be smoothed to a "clean energy benefit" does not change their underlying nature. These costs relate to electricity to be purchased according to contracts with third-party generators. The terms and conditions of these contracts were not subject to rate regulation by the OEB; rather, they were negotiated and agreed to by third-party generators and the IESO (or the former Ontario Power Authority). U.S. GAAP ASC 980 specifically states that its provisions do not apply to contracts whose terms and conditions are not subject to rate regulation.

3.7.5 Rate-Regulated Accounting Provisions Can Only Be Applied to an Entity's Own Rate Regulated Operations

In addition to the other compelling arguments that rate-regulated accounting should not impact the Province's consolidated financial statements, it should be noted that the provisions of ASC 980 apply to an entity's own rate-regulated operations. The asset that is being established by the Act—the right to recover amounts from future ratepayers—does not relate to the IESO's own operations. As outlined previously in **Section 3.6.2**, the Market Rules state that the IESO is not a party to the transactions of the market.

3.7.6 In Absence of Rate-Regulated Accounting, the Asset Created under the Fair Hydro Plan Would Be Classified as an Intangible Asset and Not Be Recognized under Canadian PSAS

OPG, in its analysis regarding the asset (i.e., the shortfall from paying generators more than what is collected from distributors) that OPG Trust will be purchasing from the IESO, correctly pointed out that the OPG Trust cannot classify this asset as a rate-regulated asset because this asset does not relate to the activities of OPG Trust. OPG's analysis went on to note that this asset will be classified as an intangible asset.

From the IESO perspective, this right to collect future revenues does not meet the definition of an accounts receivable because the specific ratepayers who will owe this amount in the future cannot be determined until those ratepayers consume electricity in future years at the higher rates reflecting the recovery of the Fair Hydro Plan reduction.

The IESO cannot record the asset as a rate-regulated balance for the many reasons outlined above; nor can the IESO record this balance as an accounts receivable. As such, the right to future recovery of the shortfall of cash received from ratepayers versus the amount due to generators would be classified as an intangible asset under Canadian PSAS, similar to the classification of the asset by the OPG Trust following IFRS.

However, where OPG Trust may be able record an intangible asset under IFRS, the Province cannot record an intangible asset under Canadian PSAS PS 1000.58, which states: "In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements."

3.7.7 Historical Accounting Precedent – The Electricity Consumer Price Protection Fund

There is precedent in previous government accounting for the electricity rate freeze for the period from May 2002 to March 2004 is similar to our recommended accounting for the proposed transactions under the Fair Hydro Plan.

In May 2002, electricity consumers were introduced to market-based prices. During the summer of 2002, the market price of electricity in Ontario rose to unanticipated levels due to such unforeseen circumstances as warmer-than-seasonal weather. As a result, electricity bills were significantly higher than in 2001. In response, the government enacted the *Electricity Pricing, Conservation and Supply Act, 2002* (Act), which established a single, fixed price for electricity.

The Act, which received Royal Assent on December 9, 2002, aimed to protect electricity consumers by lowering and freezing the price of electricity at 4.3 cents per kilowatt hour (kWh) for families, small businesses and farmers. With passage of the Act, the government fixed the electricity price at 4.3 cents per kWh until 2006, retroactive to May 1, 2002.

Under this program, power generators would receive the market price as set in the electricity market administered by the Independent Market Operator (IMO, now the IESO). The program would be administered through the Electricity Consumer Price Protection Fund (ECPPF), managed by the Ontario Electricity Financial Corporation (OEFC).

As manager, OEFC was required to pay to or receive from the IMO any difference between the current market price (spot price) and the fixed 4.3 cents/kWh charged to consumers under the Act.

When spot prices were higher than 4.3 cents/kWh, OEFC would make a payment to the IMO equal to the difference between the spot price and 4.3 cents/kWh, based on the quantity of electricity consumed. When spot prices were lower than 4.3 cents/kWh, OEFC would receive a payment from the IMO equal to the difference between the spot price and 4.3 cents/kWh, based on the quantity consumed. The ECPPF was to receive a large portion of its funding from the piece of the Market Power Mitigation Agreement rebate paid by Ontario Power Generation (OPG) that was attributable to the low volume and designated consumers.

For the 2002/03 fiscal year, the program resulted in $665 million in additional costs recorded as an expense in OEFC, reflecting the fact the average price of electricity was greater than the fixed rate of 4.3 cents/kWh. Specifically, expenditures from the ECPPF that amounted to $1.461 billion in 2002/03 were reduced by a portion of the rebate paid by OPG under the Market Power Mitigation Agreement totaling $796 million, leaving a net cost in OEFC of $665 million. In 2003/04, expenditures from the ECPPF during the year amounted to $643 million, reduced by a portion of the rebate provided by OPG under the Market Power Mitigation Agreement totaling $390 million, leaving a net cost in OEFC of $253 million.

On December 18, 2003, the passage of the *Ontario Energy Board Amendment Act, 2003* (Pricing Act), removed the 4.3 cents/kWh price freeze effective April 1, 2004, in favour of another pricing structure. This interim pricing structure was introduced on April 1, 2004, with an expectation that the net cost for the ECPPF would be eliminated in 2004/05. Upon passage of the Pricing Act and its related regulations, the responsibility for managing the ECPPF, that had reported a surplus of $704 million for the period from April 1, 2004, to March 31, 2005, was transferred to the Ontario Power Authority (OPA) on January 1, 2005. Accordingly, $176 million of the fiscal 2005 surplus was transferred to the OPA, representing the payments required to be made for the first quarter of 2005. The remaining surplus of $528 million was reflected as a liability on the balance sheet and would be returned to electricity consumers in a subsequent period.

During the ECPPF's life, 2002/03 and 2003/04 funding program shortfalls that were recovered from electricity ratepayers were recorded as an expense in OEFC's financial statements, and in the

Province's consolidated financial statements, both of which were prepared using Canadian PSAS. The 2004/05 funding program surpluses that were to be returned to electricity ratepayers were recorded as a liability. The accounting policies used for the ECPPF in OEFC's financial statements and in the Province's consolidated financial statements in prior years are consistent with our Office's accounting recommendations for recording the Fair Hydro Plan rate reduction.

RECOMMENDATION 3

We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued by our Office and tabled in the legislature on October 17, 2017, titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*, as follows:

- record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and
- use a financing structure to fund the rate reduction that is least costly for Ontarians.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat does not agree with the recommendation.

4.0 The Government's Use of External Consultants

In our *2016 Annual Report*, we reported on the government's use of external advisers. The government engages external advisers in various capacities that include providing accounting analysis, advice and interpretation. We highlighted that the interests of the Treasury Board Secretariat, the Ministry of Finance and the Office of the Auditor General are best served when there is full disclosure on the use of external advisers. For this reason, any work performed by external advisers in formulating an accounting position should be shared with the Office of the Auditor General as soon as possible, as part of the audit of the Province's consolidated financial statements. We recommended that the government provide our Office with copies of all contracts with external advisers so that we are aware of the scope of their work performed and can assess its impact on the annual audit. We also recommended that Treasury Board Secretariat incorporate in its contracts with external advisers a provision to notify our Office of their engagement with the Province.

We noted that in 2016/17, as the government designed the accounting/financing structure for the Fair Hydro Plan rate reduction, they engaged external advisers to achieve the desired accounting treatment, and sought advice from private accounting firms on various elements of the transaction at an individual entity level. Despite the recommendation made in our *2016 Annual Report*, the government did not inform our Office of its external engagements until we became aware that significant discussions were being held on matters related to the Fair Hydro Plan that would have an impact on our audit. We requested a formal briefing in early March 2017, but it was not until April 2017 that we received a high-level briefing on the Fair Hydro Plan. The accounting/financing structure was not presented at that briefing. Further, the contracts that the government had with the external advisers on the accounting/financing transaction of the Fair Hydro Plan were not provided to us until we made a specific, formal request for them.

The Office of the Auditor General is mandated under law to be the auditor of the consolidated financial statements of the Province of Ontario. However, our position on the proper accounting for the Fair Hydro Plan rate reduction was not sought despite the fact that on numerous occasions,

ministry staff advised the government that we may not agree with the accounting determined by the ministry staff and therefore the government was acutely aware of the risk that we would take issue with the accounting/financing structure being designed to avoid recording the impact of the rate reduction on the annual deficits and net debt of the Province's consolidated financial statements.

It is important that timely information is provided to our Office and that the accounting for proposed major transactions is transparently discussed with our Office early in the planning stage. The government did not implement our recommendations from last year's Annual Report related to the use of external advisers, and we repeat these recommendations this year.

RECOMMENDATION 4

The Office of the Auditor General is appointed under the *Auditor General Act* as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:

- proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine their impact on the Province's consolidated financial statements and our annual audit; and
- build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our the Office of their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisers are generally engaged to provide advice and guidance to supplement internal analysis.

Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

5.0 The Roles of the Group Auditor and the Component Auditor

5.1 Introduction

Paragraph 12(2)(f) of the *Auditor General Act* provides for our Office to bring to the attention of the Legislative Assembly any matter relating to the audit of Crown-controlled corporations.

5.1.1 Responsibilities

As noted earlier, the Auditor General is responsible under law to provide an audit opinion on the Province's consolidated financial statements. The consolidated financial statements are comprised of ministries and provincial organizations controlled by the government and include the following:

- four government business enterprises (GBEs): Hydro One, Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, and Ontario Power Generation;
- more than 40 other government organizations (OGOs), including the Independent Electricity System Operator, Legal Aid Ontario, Metrolinx, and Ontario Electricity Financial Corporation;

- 14 Local Health Integration Networks (LHINs); and
- more than 250 broader-public-sector organizations (BPS) such as hospitals, colleges and school boards.

Under the Canadian Assurance Standards (CAS), the audit of the consolidated financial statements of the Province of Ontario is determined to be a "group audit." CAS 600 *Special Considerations – Audits of Group Financial Statements* (CAS 600) includes the requirements for audits under this classification.

A group audit is the audit of financial statements comprised of the financial statement information of more than one component, which is an entity or business activity for which financial information is prepared, and should be included in the consolidated financial statements.

In the Province of Ontario, each of the more than 300 entities grouped above are components. For the requirements of CAS 600 to be met, it is important to have transparent and timely information provided to our Office by the private-sector auditors of the components. As auditor of the group financial statements, we have the ultimate responsibility to ensure that sufficient and appropriate audit evidence is obtained to support the audit opinion on the Province's consolidated financial statements.

5.1.2 Chronology

Every year, we issue instructions to specific component auditors that include the work to be performed at the component level, the intended use of that work and professionally required communication on matters relevant to our conclusions on the audit of the consolidated financial statements. To promote timeliness, we set deadlines for responses, and emphasize that any significant or unusual events are to be reported to us as early as possible.

Our instructions require a response from the component auditor as it completes key phases of the audit process as outlined in our letter, specifically the pre-engagement, planning and post-engagement phases.

This year, in the case of the IESO component audit, our letter to the IESO private-sector component auditor was dated January 11, 2017. We requested a reply by February 17, 2017, on the first two phases and by June 16, 2017, for the last phase.

We followed up with a phone call to the IESO component auditor in mid-February for a response, but did not receive one. Subsequently we learned that there was an Audit Committee meeting on February 28, 2017, to review a draft of the December 31, 2016, financial statements. During the meeting, management, the IESO component auditor, and an adviser from the same firm discussed with the Audit Committee new accounting policies related to the recording of the market account assets and liabilities on the IESO's financial statements and the adoption of rate-regulated accounting for the preparation of its financial statements.

As part of the work done by our Office on the Special Report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*, we now know that management and the IESO auditor were aware that there was a risk that our Office would not accept the proposed rate-regulated accounting policy change on the Province's consolidated financial statements. The Audit Committee initially asked management to discuss these accounting policies with the Auditor General, but we were never contacted.

Although CAS 600 does not include specific requirements for the component auditors to comply with our letter of instructions, professional responsibilities would dictate that the IESO auditor contact us without delay to inform us when significant or unusual items had occurred. As well, Subsection 9(3) of the *Auditor General Act* requires the person or persons performing the audit of a Crown-controlled corporation to comply with our letter of instructions.

On March 14, 2017, we sent a follow-up email to the IESO component auditor as their response was overdue, and we did not receive a reply. We now know that on March 15, 2017, there was a special meeting of the IESO Audit Committee to discuss

changes in their accounting policies. Following the discussion, the IESO Audit Committee resolved that the accounting policies of the IESO be amended to record market accounts assets and liabilities on the IESO's balance sheet and to adopt rate-regulated accounting. These were significant accounting policy changes.

We received a response from the IESO component auditor on March 21, 2017, on the first two phases requested in our letter of instructions, but there was no mention of any accounting policy changes. The timing of these responses did not give us the opportunity to properly engage in the discussions at the component level, given that the IESO's revised and final financial statements (including restated comparatives) to December 31, 2016, were approved by the Audit Committee and the component auditor provided its audit opinion dated March 22, 2017.

We obtained a copy of the IESO's financial statements from its website shortly after this date. We expressed our disagreement with these changes to the senior management and board members of the IESO. We formally recommended that they correct their financial statements for the policy changes they made, remove the market accounts from their financial statements, and remove rate-regulated accounting. As an "Other Government Organization," the IESO follows Canadian PSAS in preparing its financial statements and is not permitted to use rate-regulated accounting. We expressed these same concerns to the component auditor and the adviser from the same firm that significantly contributed to designing the complex accounting/financing structure for the rate reduction under the Fair Hydro Plan.

Ultimately, the government's decision to rely on the changes to the IESO's accounting policies in preparing the Province's March 31, 2017, consolidated financial statements resulted in a basis-for-qualification paragraph and an Other Matter paragraph in the Auditor General's audit opinion on the Province's 2016/17 consolidated financial statements.

5.1.3 Our Concern

The delay in receiving timely communication is concerning. The changes to the accounting policies made by the IESO resulted in a significant change in their December 31, 2016, financial statements that resulted in a restatement of five years of their prior financial results. However, we were never informed by the IESO component auditor despite earlier requests sent to them requesting that they inform us of items of this nature as soon as possible.

We disagreed with the changes made to the Province's 2016/17 consolidated financial statements resulting from the accounting policy changes made by the IESO. On consolidation, accounting policies of other government organizations have to be conformed on a uniform basis of accounting applicable at the Province's consolidated financial statement level. At the consolidated level, the recognition of the market account assets and liabilities, as well as the use of rate-regulated accounting in the public sector (other than a GBE), is not appropriate, but the government chose not to make these adjustments.

The changes to the IESO's accounting policies are significant, not only to the Province's 2016/17 consolidated financial statements but also to future reporting. As described in our October 17, 2017, Special Report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*, these changes were integral to the accounting/financing structure being designed under the Fair Hydro Plan to ensure that the Province's consolidated financial statements do not show the financial impact of the rate reduction on the Province's annual results and net debt.

5.1.4 Moving Forward

Following the completion of the audit of the Province's 2016/17 consolidated financial statements, I along with senior staff from my Office held an information session with senior audit partners from the major accounting firms. The purpose of the meeting was to introduce our Office and explain our role under the *Auditor General Act*.

At the same time, I also emphasized that as the auditor of the Province's consolidated financial statements, which include the results of hundreds of entities, I regard the work done by the component auditors as important. The transparency and timeliness of communication between my Office and component auditors must be preserved as the interests of all parties are best served when there is full disclosure and open dialogue on significant matters affecting the financial statements of government agencies, Crown-controlled corporations and, ultimately, the consolidated financial statements for the Province of Ontario.

RECOMMENDATION 5

We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:

- remove market accounts recorded on its financial statements; and
- discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.

To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the *Electricity Act*, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat does not agree with the recommendation.

6.0 Legislated Accounting Standards

Canadian PSAS have been widely adopted by Canadian federal, provincial, territorial and local governments as the basis for the preparation of their financial statements.

Over time, standards develop to address increasingly complex transactions and emerging financial issues. When changes to standards have a significant impact on the accounting for and measurement of transactions affecting annual deficit/surplus or net debt, governments may be reluctant to adopt them to the extent they generate potential volatility in annual reported results.

As discussed in our *2016 Annual Report*, the government passed legislation in 2008, 2009, 2011 and 2012 giving it the ability to make regulations for specific accounting treatments rather than the wholesale application of independently established accounting standards. In recent years, Ontario has passed legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities as follows:

- The *Investing in Ontario Act, 2008* (Act) and related regulations allow the government to provide additional transfers to eligible recipients from unplanned surpluses reported in its consolidated financial statements. Any transfers made under the Act would be recorded as an expense of the government for that fiscal year, regardless of the treatment prescribed under Canadian PSAS. Transfers under this Act have occurred only once, in 2007/08. We concluded the accounting for these transfers as an expense was appropriate under Canadian PSAS.
- In 2009, the *Education Act* and the *Financial Administration Act* were amended. The *Education Act* amendments specify that the government could prescribe accounting standards for Ontario school boards to use in

preparing financial statements. The *Financial Administration Act* amendments allow the government to prescribe accounting standards for any public or non-public entity whose financial statements are included in the Province's consolidated financial statements. For example, the Ministry of Education prescribed one accounting treatment to school boards on the adoption the new PSAS standard PS 3410, Government Transfers, which was not consistent with Canadian PSAS. We ensured that the prescribed accounting treatment was corrected when the financial statements of the school boards were consolidated into the Province's financial statements.

- In 2011, a regulation under the *Financial Administration Act* directed Hydro One, at the time wholly owned by the Ontario government, to prepare its financial statements in accordance with U.S. generally accepted accounting principles (GAAP), effective January 1, 2012. Subsequently, changes were made to the *Financial Administration Act* such that this regulation no longer applied to Hydro One following its initial public offering on the Toronto Stock Exchange in 2015. The government also required another wholly owned government business enterprise, Ontario Power Generation (OPG), to prepare its financial statements in accordance with U.S. GAAP. When the government chose to use U.S. GAAP to record the results of Hydro One and OPG in the Province's consolidated financial statements rather than International Financial Reporting Standards (IFRS), we examined the differences between IFRS and U.S. GAAP, and concluded these differences had no material effect on the Province's annual deficit. The government adopted IFRS for the purposes of recording the results of OPG and Hydro One in the Province's March 31, 2017, consolidated financial statements as required by Canadian PSAS.
- Ontario government regulations require transfers for capital acquisitions and transfers of tangible capital assets to be accounted by recipients as "deferred contributions." The deferred amounts are to be brought into revenue by transfer recipients at the same rate as they recognize amortization expense on the related assets. This prescribed accounting treatment is in accordance with PSAS.
- The 2012 Budget further amended the *Financial Administration Act* to provide the government with full authority to make regulations regarding the accounting policies and practices used to prepare its consolidated financial statements. This legislated provision was used in connection with the preparation of the 2015/16 consolidated financial statements. A time-limited regulation was passed requiring a full valuation allowance to be recorded for jointly sponsored pension plans, which was in accordance with Canadian PSAS, while in effect.
- Most recently, as noted in our Special Report titled *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money*, we expressed concerns about the government legislating a complex accounting/financing structure to improperly avoid showing annual deficit and increases in net debt. The "legislated accounting" refers to the government creating a regulatory asset through legislation. This asset represents the difference between what electricity generators are owed and the lesser amount being collected from electricity ratepayers as a result of the electricity rate reduction. Without the legislated accounting, the difference would be recorded as an expense rather than as an asset in the Province's consolidated financial statements.

We have raised the issue of the risk of the government's potential use of legislated accounting treatment on a number of occasions in our previous annual reports. This year, it was used to support inappropriate accounting in the Province's

consolidated financial statements. It is critical that Ontario continue to prepare its financial statements in accordance with generally accepted accounting standards, specifically those of Canadian PSAS, in order to maintain its financial reporting credibility, accountability and transparency.

If the government reports a deficit or surplus under legislated accounting standards that is materially different than what it would be using Canadian PSAS, the Auditor General is compelled to include a qualification in her audit opinion.

RECOMMENDATION 6

We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat does not agree that it does not follow the accounting standards established by the Public Sector Accounting Board.

7.0 Ontario's Debt Burden

In previous annual reports, we have commented on Ontario's growing debt burden, attributable to its large deficits in recent years and its investments in capital assets such as infrastructure. We do so again this year.

In reporting on Ontario's debt burden, we have updated the government's publicly reported debt figures to be in accordance with Canadian PSAS for two issues: properly accounting for the net pension assets of the OTPP and the OPSEUPP, and accounting for the projected costs of the Fair Hydro Plan. Without these adjustments, the improper accounting treatment of these two items understates net debt and the accumulated deficit.

We noted that the Province has relied on historically low interest rates to keep its debt-servicing costs relatively stable, but the debt itself, whether measured as total debt, net debt or accumulated deficit, continues to grow. **Figure 2** shows that the Province's debt levels continue to rise. The three measures of debt are defined below:

- *Total debt* is the total amount of borrowed money the government owes to external parties. It consists of bonds issued in public capital markets, non-public debt, T-bills and U.S. commercial paper. Total debt provides the broadest measure of a government's debt load.
- *Net debt* is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer-payment obligations. Financial assets are those that theoretically can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
- *Accumulated deficit* represents the sum of all past annual deficits and surpluses of the government. It can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.

7.1 Main Contributors to Net Debt

The Province's growing net debt is attributable to its large deficits in previous years, along with its investments in capital assets such as buildings and other infrastructure and equipment acquired directly or through public-private partnerships for the government or its consolidated organizations, such as public hospitals, as illustrated in **Figure 3**.

Figure 2: Total Debt, Net Debt and Accumulated Deficit, 2011/12–2019/20

Sources of data: March 31, 2017, Province of Ontario Consolidated Financial Statements, 2017 Ontario Budget and Office of the Auditor General of Ontario

	Actual ($ million)						Estimate ($ million)		
	2011/12[1]	**2012/13[1]**	**2013/14[1]**	**2014/15[1]**	**2015/16[2]**	**2016/17[2]**	**2017/18[1]**	**2018/19[1]**	**2019/20[1]**
Total debt as reported by government	257,278	281,065	295,758	314,960	327,413	333,102	341,058	351,300	362,400
Increase for:									
Fair Hydro Plan[3]	–	–	–	–	–	–	2,500	5,000	7,500
Revised total debt per Office of the Auditor General	**257,278**	**281,065**	**295,758**	**314,960**	**327,413**	**333,102**	**343,558**	**356,300**	**369,900**
Net debt as reported by government	235,582	252,088	267,190	284,576	295,372	301,648	311,921	323,300	335,900
Increase for:									
Net pension asset adjustment[4]	–	–	–	9,154	10,985	12,429	14,472	16,841	19,590
Fair Hydro Plan[3]	–	–	–	–	–	–	2,500	5,000	7,500
Revised net debt per Office of the Auditor General	**235,582**	**252,088**	**267,190**	**293,730**	**306,357**	**314,077**	**328,893**	**345,141**	**362,990**
Accumulated deficit as reported by government	158,410	167,132	176,634	187,511	192,029	193,510	193,544	193,500	193,500
Increase for:									
Net pension asset adjustment[4]	–	–	–	9,154	10,985	12,429	14,472	16,841	19,590
Fair Hydro Plan[3]	–	–	–	–	–	–	2,500	5,000	7,500
Revised accumulated deficit per Office of the Auditor General	**158,410**	**167,132**	**176,634**	**196,665**	**203,014**	**205,939**	**210,516**	**215,341**	**220,590**

1. 2017 Ontario Budget.
2. March 31, 2017, Province of Ontario Consolidated Financial Statements.
3. Office of the Auditor General Special Report: *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money.*
4. Assumed growth rate based on past growth rates.

Figure 3: Net Debt Growth Factors, 2010/11–2019/20 ($ million)

Sources of data: March 31, 2017, Province of Ontario Consolidated Financial Statements, 2017 Ontario Budget and Office of the Auditor General of Ontario

	Net Debt Beginning of Year	Deficit/ (Surplus)	Net Investment in Tangible Capital Assets[1]	Miscellaneous Adjustments[2]	Net Debt End of Year	Increase/ (Decrease)
Actual						
2010/11	193,589	14,011	7,306	(395)	214,511	20,922
2011/12	214,511	12,969	7,234	868	235,582	21,071
2012/13	235,582	9,220	7,784	(498)	252,088	16,506
2013/14	252,088	10,453	5,600	(951)	267,190	15,102
2014/15	267,190	10,315	6,509	9,716	293,730	26,540
2015/16	293,730	5,346	5,450	1,831	306,357	12,627
2016/17	306,357	2,435	4,795	490	314,077	7,720
Estimated						
2017/18	314,077	4,543	13,100	(2,827)	328,893	14,816
2018/19	328,893	4,869	15,400	(4,021)	345,141	16,249
2019/20	345,141	5,249	17,100	(4,500)	362,990	17,849
Total over 10 years	–	**79,409**	**90,278**	**(287)**	–	**169,401**

1. Includes investments in government-owned and broader-public-sector land, buildings, machinery and equipment, and infrastructure assets capitalized during the year less annual amortization and net gains reported on sale of government-owned and broader-public-sector tangible capital assets.
2. Unrealized Fair Value Losses/(Gains) on the Ontario Nuclear Funds Agreement (ONFA) Funds held by Ontario Power Generation Inc. and accounting changes. In 2014/15, a valuation allowance of $9.154 billion was correctly made to the net pension asset.

After properly accounting for the net pension assets of the OTPP and the OPSEUPP and the expected costs of the Fair Hydro Plan, the Province will continue to have annual deficits over the next three years, and net debt will continue to increase as the government borrows to finance its operations.

In fact, Ontario's net debt will have increased by 88% over a 10-year period, from $193.6 billion in 2010/11 to approximately $363.0 billion by 2019/20. We estimate total debt will almost total $370 billion by 2019/20.

To put this in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about $15,000 per person in 2010 to about $23,000 per person in 2020. In other words, it would cost every Ontarian $23,000 to eliminate the Province's net debt.

7.2 Ontario's Ratio of Net Debt to GDP

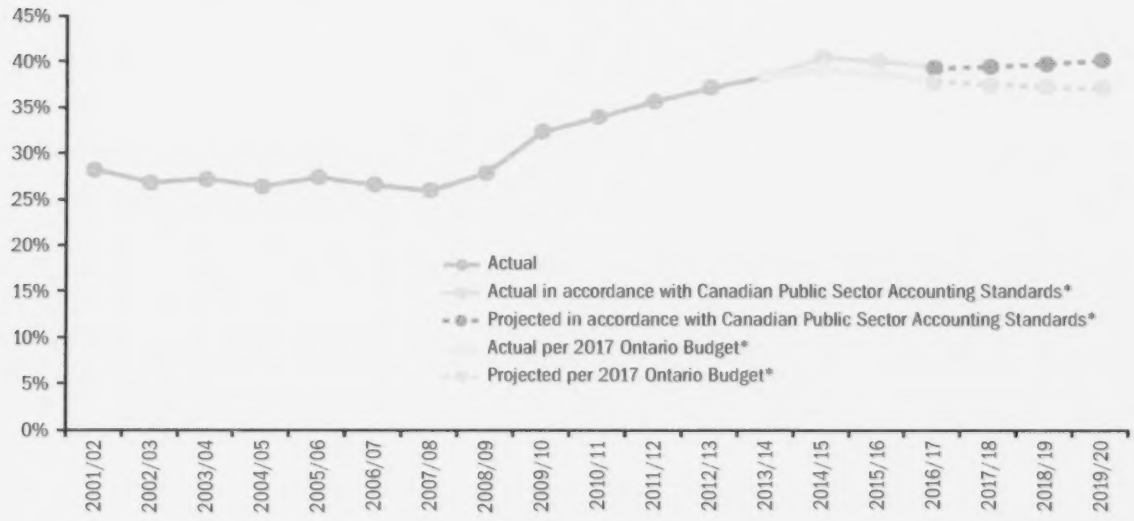
A key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy. The ratio of net debt to the market value of goods and services produced by an economy (the gross domestic product, or GDP) measures the relationship between a government's obligations and its capacity to raise the funds needed to meet them. It is an indicator of the burden of government debt on the economy.

If the amount of debt that must be repaid relative to the value of the GDP is rising—in other words, the ratio is rising—it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

Figure 4 shows that the Province's net-debt-to-GDP ratio gradually fell over a period of eight years, from a high of 29.3% in 2000/2001 to 26.0% in 2007/08. However, it has been trending upward since then, reflecting factors such as significantly

Figure 4: Ratio of Net Debt to Gross Domestic Product (GDP), 2001/02–2019/20

Source of data: March 31, 2016, and March 31, 2017, Province of Ontario Annual Reports–Financial Statement Discussion and Analysis, 2017 Ontario Budget, and 2017 Ontario Economic Outlook and Fiscal Review



* Beginning in 2014/15, the Office of the Auditor General has made an adjustment to the net pension asset in accordance with Canadian Public Sector Accounting Standards. This adjustment was not made in the government's presentation of the Province's consolidated financial statements.

increased borrowing to fund annual deficits and infrastructure spending. As well, there was the significant jump in the ratio in 2014/15 after properly accounting for the net pension assets of the OTPP and the OPSEUPP. Ontario's net-debt-to-GDP rose from approximately 26% prior to the 2008/09 recession to approximately 39.6% in 2016/17. We project Ontario's net debt will increase by $49 billion over the next three years to approximately $363 billion in 2019/20, resulting in the net-debt-to-GDP ratio rising to 40.0%. In contrast, the government's 2017 Fall Economic Statement projected a small decline in the net-debt-to-GDP ratio, to 37.0% by 2019/20, because that estimate does not reflect the net pension asset and Fair Hydro Plan adjustments.

We noted in our previous annual reports that many experts believe when a jurisdiction's net-debt-to-GDP ratio rises above 60%, that jurisdiction's fiscal health is at risk and is vulnerable to unexpected economic shocks. Of significance, the Financial Accountability Office in its report on the Long-term Budget Outlook 2017, released October 19, 2017, projected Ontario's net-debt-to-GDP ratio would rise to 63% by 2050/51, significantly above today's ratio of 39.6%.

We also noted it is somewhat of an oversimplification to rely on just one measure to assess a government's borrowing capacity, because that measure does not take into account Ontario's share of federal and municipal debts. If the Province's share of those debts was included in its indebtedness calculations, the net debt would be much higher. However, consistent with debt-measurement methodologies used by most jurisdictions, throughout our analysis we have focused only on the provincial government's direct net debt.

Figure 5 shows the net debt of Ontario compared to other provinces and the federal government, along with their respective ratios of net debt to GDP. Generally, the western provinces have a significantly lower net-debt-to-GDP ratio than Ontario and the Atlantic provinces, and Quebec has a significantly higher ratio than Ontario.

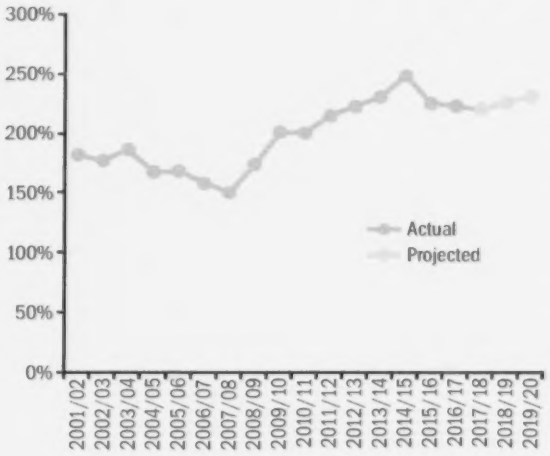
Figure 5: Net Debt and the Net-Debt-to-GDP Ratios of Canadian Jurisdictions, 2016/17

Sources of data: Province of Ontario Annual Report and Consolidated Financial Statements; Annual Reports and Consolidated Financial Statements of other provincial jurisdictions; Federal Budgets and budget updates; budgets of provincial jurisdictions; and the Office of the Auditor General of Ontario

	Net Debt ($ million)	Net Debt to GDP (%)
AB	8,901	2.9
SK	10,192	13.3
BC	37,795	14.4
Federal	631,899	31.2
MB	22,693	33.7
PEI	2,172	34.0
NS	14,955	36.4
ON	314,077	39.6
NB	13,827	41.1
NL	13,598	44.6
QC	185,214	47.2

Figure 6: Ratio of Net Debt as Percentage of Total Annual Revenue, 2001/02–2019/20

Sources of data: March 31, 2017, Province of Ontario Consolidated Financial Statements; 2017, 2016, 2015, 2009 and 2008 Ontario Budgets; 2017 Ontario Economic Outlook and Fiscal Review; and Office of the Auditor General of Ontario



Ontario's government committed to reducing net-debt-to-GDP ratio to its pre-recession level of 27% by 2029/30. However, the government's commitment does not take into account the overstatement of the pension assets of the OTPP and the OPSEUPP and the accounting for the projected costs of the Fair Hydro Plan.

7.3 Other Measures to Assess Government Debt Levels

7.3.1 Ratio of Net Debt to Total Annual Revenues

Another useful measure of government debt is the ratio of net debt to total annual revenues, an indicator of how much time it would take to eliminate the debt if the Province spent all of its revenues on nothing but debt repayment. For instance, a ratio of 250% indicates that it would take 2.5 years to eliminate the provincial debt if all revenues were devoted exclusively to it.

As shown in **Figure 6**, this ratio declined from about 183% in 2000/2001 to about 150% in 2007/08, reflecting the fact that the Province's net debt grew at a slower pace than annual provincial revenue. However, the ratio has increased steadily since 2007/08, and expected to reach 229.5% by 2019/20 before beginning to fall. This increasing ratio of net debt to total annual revenue indicates the Province's net debt has relatively less revenue to support the debt burden.

7.3.2 Ratio of Interest Expense to Revenue

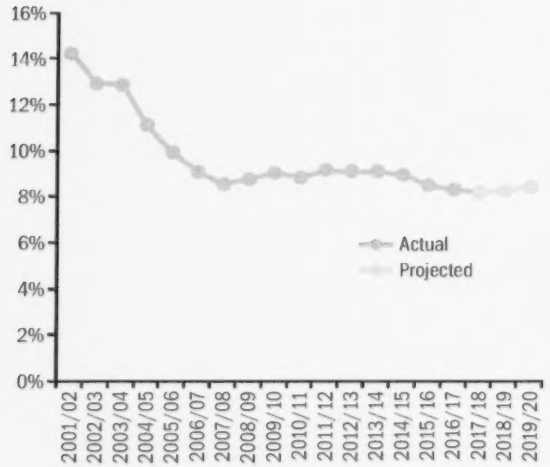
Increases in the cost of servicing total debt, or interest expense, can directly affect the quantity and quality of programs and services that government can provide; the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for spending in other areas.

The interest-expense-to-revenue ratio illustrates the extent to which servicing past borrowings takes a greater or lesser share of total revenues.

As **Figure 7** shows, rates have been at historic lows since the beginning of this decade, and the actual interest-expense-to-total revenues ratio

Figure 7: Ratio of Interest Expense to Revenue, 2001/02–2019/20

Sources of data: March 31, 2017, Province of Ontario Consolidated Financial Statements; 2017, 2016, 2015, 2009 and 2008 Ontario Budgets; 2017 Ontario Economic Outlook and Fiscal Review; and Office of the Auditor General of Ontario



held steady at around 9.0% from 2010/11 to 2014/15. In 2016/17, the government consolidated the broader public sector on a line-by-line basis, which increased both interest expense and revenue reported in the Province's consolidated financial statements beginning in 2015/16. By including the broader public sector, the ratio has decreased to 8.5% in 2015/16. The ratio stood at 8.3% in 2016/17 and is projected to be 8.3% in 2019/20. This means approximately 8.3 cents of every dollar in revenue that the government collects will go toward paying interest on debt by 2019/20.

The Province's debt also exposes it to further risks, the most significant being interest-rate risk. As noted above, interest rates are currently at record low levels, enabling the government to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. However, interest rates began to rise this year and there is an increasing risk that the government will have considerably less flexibility to provide public services such as health care and education, because a higher proportion of its revenues will be required to pay interest on the Province's outstanding debt.

As was noted in last year's annual report, the government has mitigated its interest-rate risk to some extent by increasing the weighted average term of its annual borrowings in order to take advantage of the current low rates. However, the Bank of Canada raised its key lending rate twice in 2017. When the government refinances debt at a higher interest rate than the rate paid on the maturing debt, then the average interest expense on the government's debt will go up. This means more money will go towards interest expense and therefore will increase the annual deficit.

The ratio of interest-expense-to-revenue is expected to continue to increase in the near future as more interest will be paid on the accumulation of debt issued to fund the Fair Hydro Plan transactions, indicating the government will have less flexibility to respond to changing economic circumstances. Past governments' borrowing and debt-servicing decisions mean a growing portion of revenues will not be available for other current and future government programs.

7.4 Consequences of High Indebtedness

Our commentary last year highlighted the consequences for the Province of carrying a large debt load—and the same observations continue to be relevant this year. They include the following:

Debt-servicing costs cut into funding for other programs: As debt grows, so do interest costs. As interest costs consume a greater proportion of government resources, there is less to spend on other things. To put this "crowding-out" effect into perspective, the government currently spends more on debt interest than on post-secondary education.

Greater vulnerability to interest-rate increases: Ontario has been able to keep its annual interest expense relatively steady, even as its total borrowing has increased significantly. For example, it was paying an average effective interest rate of about 8.4% in 1999/2000, but that dropped to 3.5% in 2016/17. However, if interest rates start to

rise again, the government will have considerably less flexibility to provide public services as it will have to devote a higher proportion of its revenue to interest payments.

Potential credit-rating downgrades could lead to higher borrowing costs: Prepared by specialized agencies, credit ratings assess a government's creditworthiness largely based on its capacity to generate revenue to service its debt. They consider such factors as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks. A credit rating affects the cost of future government borrowing, with a lower rating indicating that an agency believes there is a relatively higher risk that a government will default on its debt. Accordingly, investors will lend to that government only in return for a greater risk premium, in the form of higher interest rates. A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.

7.5 Final Thoughts on Ontario's Debt Burden

We recognize that, ultimately, decisions about how much debt the Province should carry, and the strategies to pay down that debt, are questions of government policy. However, as we observed last year, this should not prevent the government from providing information to promote a greater understanding of the issue and clarify the choices it makes around provincial debt.

We noted that government debt has been described as a burden on future generations, especially debt used to finance operating deficits (debt used to finance infrastructure is more likely to leave behind tangible capital assets that benefit future generations). In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35% by 2023/24, and restated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27% by 2029/30. Meeting its 2029/30 commitment is based on the three key assumptions:

- ongoing balanced budgets, on average, over the next 12 years;
- future capital spending as laid out in the long-term infrastructure plan; and
- the continuation of strong economic growth.

The Financial Accountability Office of Ontario's September 6, 2017, Commentary, titled *Ontario's Debt Reduction Based on Unlikely Assumption*, noted that "if any of these relatively optimistic assumptions fall short of expectations, the government's 27% net debt-to-GDP target would not be achieved." The commitment does not take into account the effects of the proper accounting treatment of the OTPP and the OPSEUPP assets and accounting for the costs of the Fair Hydro Plan. If the government were to account for these items as recommended by our Office, balanced budgets are unlikely over the next few years, and the fulfilment of the government's net-debt-to-GDP reduction commitment is even more unlikely.

We offer one final observation: despite the government's commitment to reduce the net debt-to-GDP ratio, there is as yet no discussion around the repayment of debt.

RECOMMENDATION 7

We recommend that in order to address the Province's growing total debt burden, the government work toward the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.

MINISTRY OF FINANCE RESPONSE

The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net

debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029/30, together with an interim target of 35% by 2023/24. From 2017/18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.

The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014/15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term.

Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended indicator by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target.

8.0 Other Significant Accounting and Audit Issues

8.1 Earlier Finalization of the Province's Consolidated Financial Statements

Historically, the Public Accounts have been released in either late August or September of each year. However, the government has indicated it would like to have an earlier release date for the Public Accounts in the future. We support a more timely publication of the Province's financial results. However, our ability to support this initiative depends on the Province's ability to provide us with sufficient and appropriate audit evidence such that we can assess the reasonability of the consolidated financial statements.

Canadian PSAS recognize that there is often a trade-off between the timeliness of producing financial statements to provide relevant information, and the reliability of the information reported in the financial statements. A significant change to the timing of the release of Public Accounts requires management to set the groundwork and apply sufficient resources for it to succeed in ensuring that appropriate schedules and other documentation are available for audit. An earlier preparation and audit timeline requires co-ordination between the preparer and auditor of the financial statements.

For example, the need for reasonable corporations tax and personal income tax estimates at an earlier date is an audit concern that the Province will need to address in order for our audit opinion to be issued sooner. Corporations tax and personal income tax revenues combined make up approximately 50% of the Province's total tax revenues, and 33% of total revenues. Both corporations tax and personal income tax revenues are based on, among other factors, an estimate of current-year tax assessments. These estimates are based on tax-filing data provided by the federal government to the Province. This data has historically not been available before July. Without this data, there is a significant challenge to accurately estimating (and auditing) corporations tax and personal income tax revenue. The Ministry of Finance needs an alternative to the current tax revenue estimation process it uses in order to prepare the Province's consolidated financial statements earlier in the year.

RECOMMENDATION 8

We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax revenues.

TREASURY BOARD SECRETARIAT RESPONSE

Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts.

The Office of the Provincial Controller will work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information it provides.

8.2 The Restatements in the 2016/17 Consolidated Financial Statements

8.2.1 Introduction

In preparing the Province's 2016/17 consolidated financial statements, the government also restated the prior year comparative figures for 2015/16. Financial restatements can result from a number of factors such as the retroactive application of a new accounting standard, correction of an error due to a misapplied accounting policy, or a reclassification of comparative figures to conform to the current year presentation. Note 16 to the Province's 2016/17 consolidated financial statements describe the four areas impacted by the restatements.

Restatements of previously issued financial statements typically occur for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework. However, in the Province's 2016/17 consolidated financial statements, the government made a number of restatements that further departed from Canadian PSAS. We found that the magnitude of the misstatements and the departures from the standards established by the Public Sector Accounting Board could influence decisions made by the users of the Province's consolidated financial statements, and this led to the qualified audit opinion on the 2016/17 consolidated financial statements.

8.2.2 Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

In the previously issued 2015/16 consolidated financial statements, the government had correctly recorded an adjustment to recognize a valuation allowance against the pension asset it had recorded for the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). We agreed with this accounting treatment as the government has neither unilateral control, nor access to the surplus assets of these jointly sponsored pension plans until an agreement is in place with the joint sponsor to allow the government to unilaterally reduce minimum contributions or withdraw plan surpluses. To date, no such agreement exists.

However, the government did not record the same adjustment in the 2014/15 comparative figures on the 2015/16 financial statements, and this led to the qualified audit opinion on the Province's March 31, 2016, consolidated financial statements. In addition to the magnitude of the financial impact, we were concerned that by not restating the 2014/15 comparative figures, the government demonstrated a lack of transparency on the nature of the adjustment of the pension assets as a correction of an error in prior periods.

Subsequent to the publication of the 2015/16 Public Accounts, the government decided to change its accounting policy and recognize pension assets in the Province's 2016/17 consolidated financial statements without properly reducing them by way of a full valuation allowance. The valuation allowance that had been recorded to reduce pension assets in 2015/16 was reversed, resulting in the 2015/16 comparative pension assets balances

being restated for the 2016/17 consolidated financial statements. The originally published 2015/16 amounts were correct. The change made resulted in a significant error to the restated 2015/16 comparative figures.

An essential characteristic of an asset, as defined by Canadian PSAS, is that the government must have unilateral control to access the pension assets. It does not have this control. Therefore, a net pension asset related to the OTPP and the OPSEUPP should not be reported in the Province's consolidated financial statements. **Section 3.6.1** in this chapter discusses the accounting in more detail and our recommendations on the proper accounting treatment of the OTPP and the OPSEUPP pension assets in the Province's consolidated financial statements in accordance with PSAS.

8.2.3 Consolidation of the Broader Public Sector, Accounting for Ontario Power Generation and Hydro One

The consolidated financial statements include the financial results of all the ministries and organizations controlled by the government. Whether a government controls an organization from an accounting perspective is a question of judgment that must be determined by reference to the definition established by the Canadian PSAS. Schedule 8 of the consolidated financial statements lists the government business enterprises (GBEs), other government organizations (OGOs) and broader public sector (BPS) organizations controlled by the Province and included in the consolidated financial statements.

Canadian PSAS established two accounting methods for recording the results of the organizations that form part of the government reporting entity in the Province's consolidated financial statements, depending on the nature of an organization. This section discusses the broader public sector, Ontario Power Generation and Hydro One, and in particular, the conditions that resulted in the revised presentation.

Broader Public Sector Properly Consolidated on a Line-by-Line Basis

The Broader Public Sector (BPS) organizations include hospitals, school boards and colleges. Prior to 2016/17, the assets and liabilities of the BPS organizations were consolidated with those of the Province on a line-by-line basis on the consolidated statement of financial position. However, the Province did not apply the same line-by-line consolidation method to the consolidated statement of operations. Instead, the revenues and expenses of the BPS sector were netted against the respective sectors' expenses (for example, Health, Education, etc.).

In the past, we have communicated that in order to comply with Canadian PSAS, all the accounts of the BPS organizations are required to be consolidated on a line-by-line basis.

We noted that the Province decided to fully apply the line-by-line consolidation of the BPS organizations in the Province's 2016/17 consolidated financial statements. As a result of this change, both the 2015/16 comparative period figures and the 2016/17 Budget amounts were appropriately restated.

Proper Recording of OPG and Hydro One's Financial Results Using IFRS

Canadian PSAS include guidelines that define the nature of a government business enterprise (GBE). Fundamentally, a GBE has autonomy and business-oriented objectives. In the normal course of its operations, a GBE should be able to maintain its operations, meet its liabilities and repay its gross debt from revenues received from sources outside of the government reporting entity. GBEs are consolidated under Canadian PSAS using the modified equity approach, and this method reflects the nature of the independently-managed business enterprise.

Both OPG and Hydro One are deemed to be GBEs. Given that a GBE carries on a business, Canadian PSAS prescribe that GBE financial statements should be prepared on the same basis as the private

sector, which is International Financial Reporting Standards (IFRS). In accordance with Canadian PSAS, the financial results of OPG and Hydro One, should be reflected in the Province's consolidated financial statements based on IFRS.

We have commented in the past that the Ontario government chose to use U.S. generally accepted accounting standards (which is not accepted for consolidation in a government's financial statements prepared using Canadian PSAS) and not IFRS as the basis for recording the financial results of OPG and Hydro One. In **Chapter 2** of our *2016 Annual Report*, we indicated that we anticipated that differences between the U.S. generally accepted accounting standards and IFRS could become material in the future. We recommended then that the Province include the financial results for OPG and Hydro One in the Province's consolidated financial statements determined based on the IFRS framework. We noted that the Province decided to change its accounting policy to comply with Canadian PSAS and record the financial results of Ontario Power Generation and Hydro One using IFRS in the Province's 2016/17 consolidated financial statements.

8.2.4 Improper Recognition of Market Accounts

In the 2016/17 consolidated financial statements, the Province changed its accounting policies to recognize market accounts and rate-regulated assets, which also resulted in the restatement of the Province's 2015/16 comparative financial results.

The market accounts principally track buy and sell transactions between electricity power generators and power distributors. As we outlined in **Section 3.6.2** of this chapter, we disagree with the restatement to record the market accounts on a gross basis, because the government has no access or discretion to use the market account assets for their own benefit; nor does it have an obligation to settle the market account liabilities in the event of default by market participants. The nature of the market accounts do not meet the characteristics of an asset or liability established by Canadian PSAS and the recognition of these accounts on the consolidated financial statements is a basis for the qualified audit opinion.

8.2.5 Inappropriate Recording of Impact of Rate-Regulated Accounting

In the Province's 2016/17 consolidated financial statements, the Province recognized the rate-regulated assets from an "other government organization," the Independent Electric System Operator (IESO), in its consolidated financial statements, and restated the 2015/16 comparative amounts for this accounting change. We disagree with this restatement. As we outline in **Section 3.7** of this chapter, although it is not specifically stated in the Canadian PSAS, rate-regulated accounting is not permitted for use in financial statements prepared under Canadian PSAS (except for GBEs that report using the IFRS Framework that are included in a government's consolidated financial statements).

8.3 The Affordability Fund Trust

The timing as to when expenses are recorded in the Province's consolidated financial statements is important, and the criteria used to determine when these amounts should be recognized is based on Canadian PSAS.

The Province of Ontario consolidates into its financial statements the financial results of over 300 organizations controlled by the Province. The amounts reflected in the Province's consolidated financial statements for the activities of a controlled organization are net of inter-organizational balances and transactions. This means, for example, that if a ministry transfers funds to an organization that the government controls, the ministry records an expense (decrease in economic resources) while the organization records a revenue (gain in economic resources). These amounts cancel out on consolidation such that no net revenue or

expense is recognized in the consolidated financial statements because the Province, as a whole, has not experienced a change in its overall level of economic resources.

In contrast, if funds are transferred to a non-controlled entity (i.e., independent, third-party) an expense is then recorded in the consolidated financial statements (assuming the eligibility criteria attached to the funds were met by the non-controlled entity).

On March 23, 2017, the Province established an arm's-length trust, the Affordability Fund Trust (Affordability Fund), in consultation with Hydro One and in conjunction with all other Local Distribution Companies (LDCs), as part of the Fair Hydro Plan. The Affordability Fund was formed to provide direct funding to individual electricity customers in need to reduce their future electricity bills up to December 31, 2019. On the same day, the Province transferred $100 million to the Affordability Fund and recognized this expense in full in the Province's 2016/17 consolidated financial statements.

If the Affordability Fund were determined to be controlled by the Province, the expense would have only been able to be recognized when the actual funds were provided to the specific beneficiaries (that is, the individual electricity customers under Canadian PSAS). As at March 31, 2017, there were no transfers made to beneficiaries. However, the Affordability Fund was set up as an arm's length trust in order to not to be controlled by the Province, and therefore able to record the expense of $100 million in the Province's 2016/17 consolidated financial statements.

In order to record the expense, the government accepted the trade-off of then giving up control over the spending of $100 million provided to the Affordability Fund.

Although we acknowledge that accounting for such transfers of funds to non-controlled trusts is an acceptable way under Canadian PSAS to enable the recording of an expense before money is spent, the government has given up control over the management of these funds before funds are provided to the intended beneficiaries. In the case of the Affordability Fund, it may be years before funds are fully distributed to intended grant recipients.

RECOMMENDATION 9

We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.

TREASURY BOARD SECRETARIAT RESPONSE

The response received from the Treasury Board Secretariat did not address the recommendation.

9.0 Auditor General Review of the 2018 Pre-Election Report on Ontario's Finances

One of the most significant initiatives to improve the transparency of government financial reporting is the requirement that the government release a report on Ontario's finances in advance of a provincial election.

The *Fiscal Transparency and Accountability Act, 2004* (Act) states, among other things, that in such circumstances as may be prescribed by regulation, the Ministry of Finance shall release a report on Ontario's finances and shall do so before the deadline established by regulation. The purpose of this report is to provide the public with detailed information to enhance its understanding of the Province's estimated future revenues, expenses, and projected surplus or deficit for the next three fiscal years. Ontario election law says the next provincial general election will be held on June 7, 2018.

As required by the Act, the government's Pre-Election Report will provide information on:

- the macroeconomic forecasts and assumptions used to prepare the government's fiscal plan;
- Ontario's estimated revenues and expenses, including estimates of the major components of the revenues and expenses;
- details of the budget reserve; and,
- the ratio of provincial debt to Ontario's gross domestic product.

As required under the Act, the Auditor General must review the report to determine whether it is reasonable, and release an independent report describing the results of her review. Two things must occur before this review can take place:

- The government must prepare a Pre-Election Report covering a defined period of time.
- As per the Act, in such circumstances as may be prescribed by regulation, the Ministry of Finance shall release a report on Ontario's finances and shall do so before the deadline established by regulation.

As of November 7, 2017, a regulation prescribed by Lieutenant Governor in Council has not yet been issued. This regulation is important because it provides our Office with information on when the pre-election report will be available to us for review. The sooner our Office is made aware of the form and timing of issuance of the pre-election report, the better our ability to complete a review prior to the pre-election report deadline.

The Act was created when the fixed general election date was set for the fall of every fourth year. As such, pre-election reports issued by the Ministry of Finance used the budgeted revenue and expense estimates contained within the spring budget of the election year. Now, with the change of the fixed general election date to June of every fourth year, if the pre-election report is based on the same spring budget, this could pose time constraints for us to complete our work.

If the government establishes a regulation under subsection 10(1) of the Act to release a Pre-Election Report, and if the Minister does not release information required by this Act on or before the deadline it sets in a regulation, the Minister shall release a statement on or before that deadline to explain why the required information was not so released.

We will work closely with the Ministry of Finance and Treasury Board Secretariat in order to allow us to complete the review and issue our report in sufficient time in advance of the June 7, 2018, general election.

RECOMMENDATION 10

We recommend that the government publicly communicate if and when it will file a regulation as outlined under subsection 10(1) of the *Fiscal Transparency and Accountability Act, 2004* confirming that the government will release a Pre-Election Report and the timelines for release of the Report that will be subject to our review under the Act.

TREASURY BOARD SECRETARIAT RESPONSE

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

OFFICE OF THE AUDITOR GENERAL RESPONSE

Our concern at the time we went to print with our *2017 Annual Report* was that we may be put in a situation where the government does not allow us sufficient time, as required by Canadian generally accepted auditing standards, to perform the work required to issue a statement on the results of our review of the Pre-Election Report.

10.0 Update on WSIB

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by the *Workplace Safety and Insurance Act, 1997* (Act). Its primary purpose is to provide income support and medical assistance to workers injured on the job. The WSIB receives no funding from government; it is financed through premiums on employer payrolls.

Our *2009 Annual Report* discussed the risk that the growth and magnitude of the unfunded liability (the difference between the value of the WSIB's assets and its estimated financial obligations to pay benefits to injured workers) at that time posed to the WSIB's financial viability, including the ultimate risk of the WSIB being unable to meet its existing and future commitments to provide worker benefits.

At the time, we also urged the government to reconsider the exclusion of the WSIB's financial results from the Province's consolidated financial statements, particularly if there were any risks that the Province might have to provide funding to ensure the WSIB remained viable. The government excludes WSIB's financial results because it is classified as a "trust." However, given the WSIB's significant unfunded liability and various other factors, we questioned whether the WSIB operates like a true trust. Including the WSIB in the government's consolidated financial statements would have a significant impact on the government's fiscal performance.

As of June 30, 2010, the WSIB's unfunded liability had grown to almost $13 billion. In September 2010, the WSIB announced an independent funding review to obtain advice on how to best ensure the long-term financial viability of Ontario's workplace safety and insurance system. The May 2012 report contained a number of recommendations, in particular calling for a new funding strategy for the WSIB with the following key elements:

- realistic assumptions, including a discount rate based on the best actuarial advice;
- moving the WSIB as quickly as feasible beyond a "tipping point" of a 60% funding Sufficiency Ratio (a tipping point is a crisis in which the WSIB could not generate sufficient funds to pay workers' benefits within a reasonable time frame and by reasonable measures); and
- putting the WSIB on course to achieve a 90%–110% funding Sufficiency Ratio within 20 years.

In response to our concerns and to the recommendations of the report, the government passed Regulation 141/12 under the Act in June 2012. Effective January 1, 2013, it required the WSIB to ensure it meets the following funding Sufficiency Ratios by specified dates:

- 60% on or before December 31, 2017;
- 80% on or before December 31, 2022; and
- 100% on or before December 31, 2027.

The government also passed Ontario Regulation 338/13 in 2013. It came into force January 1, 2014, and changed the way the WSIB calculates the funding Sufficiency Ratio by changing the method used to value its assets and liabilities. Our Office concurred with this amendment.

The WSIB issues quarterly Sufficiency Reports and an audited Sufficiency Report to stakeholders annually. As of December 31, 2016, under Regulation 141/12 as amended by Regulation 338/13, the WSIB reported a Sufficiency Ratio of 87.4% (in 2015, the Sufficiency Ratio was 77.9%). This means the WSIB has already achieved its December 31, 2022 funding requirement.

The WSIB now incorporates its annual update of the Sufficiency Plan within the economic statement, in which it describes the measures taken to improve its funding Sufficiency Ratio. The most recent plan was announced at WSIB's Annual General Meeting held on September 20, 2017, and is also available on the WSIB website.

The WSIB's operational and financial performance was strong in 2016, as illustrated in **Figure 8**, which provides a summary of the WSIB's operating results and unfunded liability compared to 2015.

Figure 8: Workplace Safety and Insurance Board Operating Results and Unfunded Liability, 2016 and 2015
Source of data: WSIB Financial Statements

	2016 ($ million)	2015 ($ million)
Revenue		
Premiums	4,862	4,684
Net investment income	1,497	1,199
	6,359	**5,883**
Expenses		
Benefit costs	2,747	3,760
Loss of Retirement Income Fund contributions	56	56
Administration and other expenses	431	406
Legislated obligations and commitments	244	263
Remeasurement of employee defined benefit plans	35	(45)
	3,513	**4,440**
Total Comprehensive Income	**2,846**	**1,443**
Less: Non-Controlling Interests	(172)	(152)
Total Comprehensive Income Attributable to WSIB Stakeholders	**2,674**	**1,291**
Unfunded Liability	**3,925**	**6,599**

The WSIB's continued strong operating performance in 2016 resulted from growth in premium revenues, improved return-to-work outcomes and better-than-expected investment returns (6.3% versus the target of 5.25%).

As a result of commitments by the government and the WSIB to address the unfunded liability and the progress the WSIB has made so far, we support the continued classification of the WSIB as a trust for the 2016/17 fiscal year and, therefore, the exclusion of the unfunded liability from the Province's liabilities.

11.0 Ongoing Accounting Standards Matters

Canadian PSAS are the most appropriate for the Province to use in preparing its consolidated financial statements. This ensures that information provided by the government about its surplus or the deficit is fair, consistent and comparable to data from previous years, allowing legislators and the public to assess the government's management of the public purse. It is worth noting that Ontario's provincial budget is also prepared on the same basis as its consolidated financial statements.

However, the Public Sector Accounting Board (PSAB) faces challenges in reaching a consensus among its various stakeholders, including financial statement preparers and auditors, during the development and update of standards for the public sector.

We discuss two significant accounting issues: Financial Instruments and Rate-Regulated Accounting in government business enterprises that have posed a significant challenge to PSAB over the past few years. Their final accounting-standard determination may affect the way the Province accounts for these items, and may have a significant impact on the Province's reported financial results.

11.1 Financial Instruments

Financial instruments include provincial debt and derivatives such as currency swaps and foreign-exchange forward contracts. PSAB's project to develop a new standard for reporting financial instruments began in 2005, with a key issue being whether changes in the fair value of derivative contracts held by governments should be reflected in their financial statements and, in particular, whether such changes should affect a government's annual surplus or deficit.

In March 2011, PSAB approved a new public-sector accounting standard on financial instruments, effective for fiscal periods beginning on or after April 1, 2015. The new standard provides guidance on the treatment of government financial instruments, and is similar to comparable private-sector standards.

One of its main requirements is for certain financial instruments, including derivatives, to be recorded at fair value, with any unrealized gains or losses on these instruments recorded annually in a new financial statement of re-measurement of gains and losses.

Some Canadian jurisdiction preparers, including Ontario, do not support the introduction of these fair-value re-measurements and the recognition of unrealized gains and losses. Ontario's view is that it uses derivatives solely to manage foreign currency and interest-rate risks related to its long-term-debt holdings, and that it has both the intention and ability to hold these derivatives until the debts associated with them mature.

Accordingly, re-measurement gains and losses on the derivatives and their underlying debt would offset each other over the total period that such derivatives are held, and therefore would have no real economic impact on the government.

The government argues that recording paper gains and losses each year would force the Province to inappropriately report the very volatility that the derivatives were acquired to avoid. This, in its view, would not reflect the economic substance of government financing transactions and would not provide the public with transparent information on government finances.

In response to governments' concerns, PSAB committed to reviewing the new financial instruments standard by December 2013. PSAB completed its review of *Section PS 2601, Foreign Currency Translation*, and *Section PS 3450, Financial Instruments*, and in February 2014 confirmed the soundness of the principles underlying the new standard.

PSAB deferred the effective date for these new standards to fiscal years beginning on or after April 1, 2016. In 2015, however, PSAB further extended the effective date for the new standard to April 1, 2019, for senior governments, to allow further study of reporting options for these complex financial instruments.

Since February 2016, staff with PSAB have been consulting with the government and not-for-profit stakeholders on implementation issues of the financial instruments standard. The senior government community has communicated the need for a hedge accounting option during these consultations. PSAB noted that its staff, in collaboration with stakeholders, has identified certain timing issues in the new financial-instruments standard that may impact a government's annual surplus or deficit in a manner that is unrepresentative of the underlying transactions. PSAB observed that the International Public Sector Accounting Standards Board (IPSASB) has released a Financial Instruments Exposure Draft that builds upon the private sector's best practices in accounting for financial instruments under International Financial Reporting Standards. PSAB has been following the work of IPSASB whose proposed financial instrument standard includes a hedging option. PSAB noted it is considering using this standard. PSAB also noted some stakeholders expressed concerns about the volatility of net debt of governments on recording derivative instruments at fair value. PSAB noted that while this matter is not within the scope of investigating the hedge accounting option, if PSAB's stakeholders are in favour of the IPSASB proposal, PSAB would consider the implications for net debt in finalizing the hedge accounting requirements.

We continue to recommend ongoing dialogue between our Office and the Office of the Provincial Controller to review areas of common concern as the PSAB reassesses the standard in preparation for implementing it on April 1, 2019.

11.2 Rate-Regulated Accounting

Rate-regulated accounting was developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated by an independent regulator in most regulatory frameworks. In general, it allows the deferral of revenue and expenses to future years. The regulator often allows the entity to recover certain current-year costs from the ratepayer in future years, and these deferred costs are typically set up under rate-regulated accounting as assets on the entity's statement of financial position. Under normal accounting principles, these costs would be expensed in the year incurred. We have concerns about the appropriateness of recognizing rate-regulated assets and liabilities, including those of government business enterprises in the Province's consolidated financial statements. However, the absence of rate-regulated accounting would have considerable impact on those entities that have followed it for many years where it is still permitted under Canadian PSAS.

Rate-regulated accounting is used by two of the Province's government-controlled business enterprises, Ontario Power Generation (OPG) and Hydro One whose rates to customers are approved by the Ontario Energy Board, a government-established regulator. Rate-regulated accounting treatment is currently allowable under Canadian generally accepted accounting principles for government business enterprises. Rate-regulated accounting provisions outline the need for an independent, third-party regulator to set rates. We note that since the Ontario government controls both the regulator and the major regulated entities, it has significant influence on which costs Hydro One and OPG will recognize in a given year. This could ultimately affect both electricity rates and the annual deficit or surplus reported by the government.

In our previous annual reports, we outlined that the era of rate-regulated accounting appeared to be ending for jurisdictions like Canada as they were converting to International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB), in 2012. Our comments were based on the fact that in January 2012 Canada's Accounting Standards Board (AcSB) reaffirmed that all government business enterprises should prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2012. At that time, IFRS standards did not include accounting provisions that addressed rate-regulated activities and so, by default, IFRS standards did not permit rate-regulated accounting.

However, the rate-regulated accounting landscape has continued to evolve since then. Efforts to harmonize U.S. generally accepted accounting policies (U.S. GAAP) and IFRS were in place as Canada converted to IFRS in 2012. At that time, U.S. GAAP allowed for, and continues to allow for, rate-regulated accounting. The appropriateness of rate-regulated accounting has been discussed as part of the efforts to harmonize U.S. GAAP and IFRS. As these discussions were taking place, Canada's AcSB granted a one-year extension in March 2012 to the mandatory IFRS changeover date for entities with qualifying rate-regulated activities. Multiple one-year extensions to defer adoption of IFRS by these entities followed over the next few years.

An interim IFRS standard was issued in January 2014 in an attempt to ease the adoption of IFRS for rate-regulated entities by allowing them to continue to apply existing policies for their deferred rate-regulated balances upon adoption of IFRS starting on January 1, 2015. Essentially, the interim standard provides a first-time adopter of IFRS with relief from having to de-recognize their rate-regulated assets and liabilities until the comprehensive review on accounting for such assets and liabilities is completed by the IASB. The result of this review and the determination of whether rate-regulated accounting will be allowed, for example, in government business enterprises on an ongoing basis as opposed to an interim basis, is uncertain at this time.

In 2017, the Auditor General of British Columbia qualified the Province of British Columbia's consolidated financial statements because the government has directly impacted the setting of electricity rates by not allowing BC Hydro to recover its costs of service. The Office of the Auditor General of British Columbia's September 2017 report titled *Understanding Our Audit Opinion on BC's 2016/17 Financial Statements* states: "Even though B.C. has an independent third-party regulator, government has issued a number of directions that the regulator must follow in the rate setting process. In effect, because government brings the accounting results of BC Hydro into its Summary Financial Statements (SFS), government's directions are impacting its own bottom line."

We will continue to monitor developments impacting the use of rate-regulated accounting in government business enterprises going forward to assess its impact on Ontario's consolidated financial statements.

12.0 Public Sector Accounting Board Initiatives

This section outlines some additional items that PSAB has been studying over the past year that might affect the preparation of the Province's consolidated financial statements in the future.

12.1 Concepts Underlying Financial Performance

PSAB's existing conceptual framework is a set of interrelated objectives and fundamental principles that support the development of consistent accounting standards. Its purpose is to instill discipline into the standard-setting process to ensure that accounting standards are developed in an objective, credible and consistent manner that serves the public interest.

In 2011, PSAB formed the Conceptual Framework Task Force in response to concerns raised by several governments regarding current and proposed standards which they contend cause volatility in reported results and distort budget-to-actual comparisons. The task force's objective was to review the appropriateness of the concepts and principles in the existing conceptual framework for the public sector.

The task force's first step was to seek input from stakeholders on the building blocks of the conceptual framework; these will form the basis for evaluating the existing concepts underlying the measurement of financial performance. To this end, the task force issued two consultation papers: *Characteristics of Public Sector Entities* and *Measuring Financial Performance in Public Sector Financial Statements*.

In March 2015, the task force issued a third consultation paper that proposed a new reporting model and draft principles on public-sector characteristics, financial statement objectives, qualitative characteristics, elements, recognition, measurement and presentation. The comment period ended in August 2015.

The task force is currently developing a statement of principles that will take into account input received from the three Consultation Papers, and will propose a revised conceptual framework and reporting model for public-sector entities. PSAB expects to issue a statement of principles in 2018.

12.2 Asset Retirement Obligations

The objective of this project is to develop a standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. For example, there may be obligations associated with decommissioning an electricity generating facility.

In August 2014, PSAB issued a statement of principles that proposed a new section on retirement obligations associated with tangible capital assets controlled by a public-sector entity. The comment period ended in November 2014; based on the feedback received, PSAB issued an exposure draft

in March 2017. The main features of the Exposure Draft are:

- A retirement obligation should be recognized when there is a legal obligation to incur retirement costs in relation to a tangible capital asset and a reasonable estimate can be made.
- The recognition of an asset retirement obligation will increase the net debt reported by a public-sector entity.
- Upon initial recognition, the entity would increase the carrying amount of the related tangible capital asset by the same amount as the liability. However, if the related asset is no longer in productive use, or if the related asset is not recognized for accounting purposes, these costs would be recorded as an expense.
- The cost included in the carrying amount of the tangible capital asset should be allocated to expense in a rational and systematic manner. This could include amortization over the remaining useful life of the related tangible capital asset, or a component thereof.
- The estimate of a liability for retirement obligation should include costs directly attributable to retirement activities, including post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.
- The carrying amount of the liability for a retirement obligation should be reviewed at each financial reporting date.
- Subsequent re-measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or an expense.

PSAB accepted feedback on these proposals until June 15, 2017.

12.3 Revenue

Two major sources of government revenue—government transfers and tax revenue—are addressed in the sections *PS 3410, Government Transfers* and *PS 3510, Tax Revenues* of the Canadian PSAS. However, PSAS do not specifically address other revenues.

In September 2011, PSAB approved an amended project proposal on revenues to address the limited guidance on revenues that are common in the public sector. PSAB did not initiate the project to review the existing revenue standards; rather, it aimed to put in place overarching guidance to address questions about when revenues are recognized, and how they are measured and presented in the financial statements.

The purpose of the project is to expose a new section on revenues that would apply to public-sector entities that follow PSAS.

Following the publication of a statement of principles in 2013, PSAB issued an exposure draft for public comment earlier this year.

The exposure draft:

- focuses on two main areas of revenue:
  - exchange transactions; and
  - unilateral (non-exchange) transactions
- notes the presence of performance obligations for the public-sector entity as the distinguishing feature of an exchange transaction;
- defines performance obligations as enforceable promises to provide goods or services to a payor;
- specifies that revenue from an exchange transaction is recognized as or when the public-sector entity's satisfies the performance obligation;
- recognizes that performance obligations may be satisfied at a point in time or a over a period of time, depending on which method best depicts the transfer or goods or services to the payor; and
- sets out the requirement that public sector entities recognize unilateral revenues when there is the authority and a past event that gives rise to a claim of economic resources.

PSAB asked stakeholders to submit comments on the exposure draft by August 15, 2017.

12.4 Employment Benefits

In December 2014, PSAB approved an Employment Benefits project to improve the existing PSAS sections by taking into account changes in the related accounting concepts and new types of pension plans that were developed since the existing sections were issued decades ago. The project aims to review the existing sections, *PS 3250 Retirement Benefits* and *PS 3255 Postemployment Benefits, Compensated Absences and Termination Benefits*. The first phase of the project will focus on measurement issues such as the deferral of experience gains and losses and discount rates. The second phase will address non-traditional pension plans such as shared-risk plans as well as other important topics such as multi-employer defined-benefit plans and vested sick-leave benefits.

In December 2016, PSAB began the first phase of the project by issuing an invitation to comment on the deferral of actuarial gains and losses. Governments and other public sector entities need to make significant assumptions when valuing pension plan obligations and plan assets. Actuarial gains and losses measure the differences between these assumptions and the plans' experience, plus any updates to the assumptions. In the past, it was common accounting practice in Canada to defer such gains and losses over an extended period of time. However, over the past decade, other accounting frameworks in Canada have moved towards an immediate recognition approach. The invitation to comment seeks input from stakeholders as to whether deferral is still an appropriate choice in the public sector. Proponents of deferrals point to the fact that this approach avoids creating volatility in the reported results and facilitates budget-to-actual comparison. Proponents of the immediate recognition approach believe that it promotes accountability by providing users of the financial statements with the most relevant information.

The next step in the process is an invitation to comment on discount rates is expected to be approved by the end of 2017.

13.0 Statutory Matters

Under section 12 of the *Auditor General Act*, the Auditor General is required to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, section 91 of the *Legislative Assembly Act* requires that the Auditor General report on any transfers of money between items within the same vote in the Estimates of the Office of the Assembly.

13.1 Legislative Approval of Expenditures

Shortly after presenting its budget, the government tables detailed Expenditure Estimates in the Legislative Assembly outlining, on a program-by-program basis, each ministry's planned spending. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on this review to the Legislature. Orders for Concurrence for each of the estimates selected by the Committee, following a report by the Committee, are debated in the Legislature for a maximum of two hours before being voted on. The estimates of those ministries that are not selected are deemed to be passed by the Committee, reported to the Legislature, and approved by the Legislature.

After the Orders for Concurrence are approved, the Legislature still needs to provide its final approval for legal spending authority by approving a *Supply Act*, which stipulates the amounts that can be spent by ministries and legislative offices, as detailed in the estimates. Once the *Supply Act* is approved, the expenditures it authorizes are considered to be Voted Appropriations. The *Supply Act, 2017*, which pertained to the fiscal year ended March 31, 2017, received Royal Assent on March 30, 2017.

The *Supply Act* does not receive Royal Assent until after the start of the fiscal year—and sometimes even after the related fiscal year is over—so

the government usually requires interim spending authority prior to its passage. For the 2016/17 fiscal year, the Legislature passed two acts allowing interim appropriations—the *Interim Appropriation for 2016–2017 Act, 2015* (Interim Act) and the *Supplementary Interim Appropriation for 2016–2017 Act, 2016* (Supplementary Act). These two Acts received Royal Assent on December 10, 2015, and December 8, 2016, respectively, and authorized the government to incur up to $127.1 billion in public-service expenditures, $4.4 billion in investments, and $219.5 million in legislative office expenditures. Both acts were made effective as of April 1, 2016, and provided the government with sufficient authority to allow it to incur expenditures from April 1, 2016, to when the *Supply Act, 2017* received Royal Assent on March 30, 2017.

Because the legal spending authority under the Interim Act and the Supplementary Act was intended to be temporary, both were repealed when the *Supply Act, 2017*, received Royal Assent. The *Supply Act, 2017*, also decreased total authorized expenditures in investments from $4.4 billion to $4.3 billion, and increased total authorized expenditures of the legislative offices from $219.5 million to $225.4 million.

13.2 Special Warrants

If the Legislature is not in session, Section 1.0.7 of the *Financial Administration Act* allows for the issuance of Special Warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council and approved by the Lieutenant Governor on the recommendation of the government.

No Special Warrants were issued for the fiscal year ended March 31, 2017.

13.3 Treasury Board Orders

Section 1.0.8 of the *Financial Administration Act* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any voted appropriation that is expected to be insufficient to carry out the purpose for which it was made. The order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The order may be made at any time before the government closes the books for the fiscal year. The government considers the books to be closed when any final adjustments arising from our audit have been made and the Public Accounts have been published and tabled in the Legislature.

Even though the *Treasury Board Act, 1991* was repealed and re-enacted within the *Financial Administration Act* in December 2009, subsection 5(4) of the repealed act was retained. This provision allows the Treasury Board to delegate any of its duties or functions to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006*. Such delegations continue to be in effect until replaced by a new delegation. Since 2006, the Treasury Board has delegated its authority for issuing Treasury Board Orders to ministers to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making program transfers between ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board Orders in which the amount of an appropriation is offset by a reduction to the amount available under the government's centrally controlled contingency fund.

Figure 9 summarizes the total value of Treasury Board Orders issued for the past five fiscal years.

Figure 10 summarizes Treasury Board Orders for the fiscal year ended March 31, 2017, by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to be

Figure 9: Total Value of Treasury Board Orders, 2012/13–2016/17 ($ million)
Source of data: Treasury Board

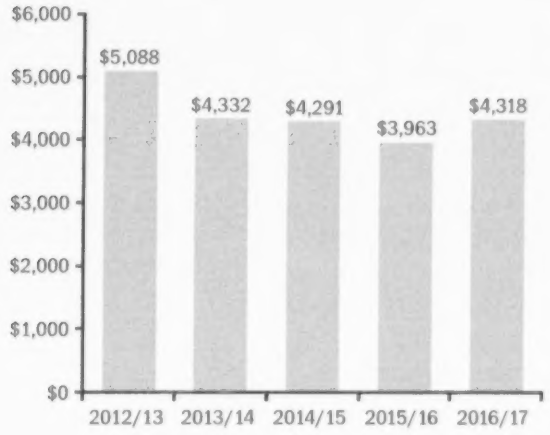


Figure 10: Total Value of Treasury Board Orders by Month Relating to the 2016/17 Fiscal Year
Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
April 2016–February 2017	92	1,800
March 2017	60	2,136
April 2017	5	189
May 2017–August 2017	4	193
Total	**161**	**4,318**

printed in The Ontario Gazette, together with explanatory information. Orders issued for the 2016/17 fiscal year are expected to be published in The Ontario Gazette in December 2017. A detailed listing of 2016/17 Treasury Board Orders, showing the amounts authorized and expended, is included in **Exhibit 4** of this report.

13.4 Transfers Authorized by the Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, Section 91 of the *Legislative Assembly Act* requires that we make special mention of the transfer(s) in our Annual Report.

Accordingly, **Figure 11** shows the transfers made within Vote 201 with respect to the 2016/17 Estimates.

13.5 Uncollectible Accounts

Under Section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance and the President of the Treasury Board, may authorize an Order-in-Council to delete from the accounts any amounts due to the Crown that are the subject of a settlement or deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2016/17 fiscal year, receivables of $267 million due to the Crown from individuals and non-government organizations were written off. (The comparable amount in 2015/16 was $396 million.) The write-offs in the 2016/17 fiscal year related to the following:

- $64.4 million for uncollectible corporations tax ($98.9 million in 2015/16);
- $49.9 million for uncollectible receivables under the Student Support Program ($50.9 million in 2015/16);
- $45.9 million for uncollectible receivables under the Ontario Disability Support Program ($65.3 million in 2015/16);
- $40.3 million for uncollectible retail sales tax ($124.2 million in 2015/16);

Figure 11: Authorized Transfers Relating to the Office of the Assembly, 2016/17 Fiscal Year
Source of data: Board of Internal Economy

From:	$
Item 6 Sergeant at Arms and Precinct Properties	(95,500)
To:	
Item 2 Office of the Clerk	95,500

- $27.3 million for uncollectible employer health tax ($20.3 million in 2015/16); and
- $39.2 million for other tax and non-tax receivables ($36.4 million in 2015/16).

Volume 2 of the 2016/17 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the preparation of the Province's consolidated financial statements, a provision for doubtful accounts is recorded against accounts receivable balances. Most of the write-offs had already been expensed in the government's consolidated financial statements. However, the actual write-off in the accounts required Order-in-Council approval.

Chapter 3

Reports on Value-for-Money Audits

Our value-for-money (VFM) audits examine how well government ministries, organizations in the broader public sector, agencies of the Crown and Crown-controlled corporations manage their programs and activities. These audits are conducted under subsection 12(2) of the *Auditor General Act*, which requires that the Office report on any cases where we have found money spent without due regard for economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of service delivery.

Where relevant, such audits also include compliance issues. In essence, VFM audits delve into the underlying operations of the ministry program or organization being audited to assess both their cost-effectiveness and the level of service they deliver to the public. This chapter contains the conclusions, observations and recommendations for the VFM audits conducted in the past audit year.

The ministry programs and activities and the organizations in the broader public sector audited this year were selected by the Office's senior management on the basis of such criteria as the financial impact of a program or organization, its significance to the Legislative Assembly, related issues of public sensitivity and safety, and the results of past audits and related follow-up work.

We plan, perform and report on our value-for-money work in accordance with the professional standards for assurance engagements established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants), which encompass value-for-money and compliance work. These standards involve conducting the tests and other procedures that we consider necessary, including obtaining advice from external experts when appropriate.

Before beginning an audit, our staff conduct in-depth research into the area to be audited and meet with representatives of the auditee to discuss the focus of the audit, including our audit objectives and criteria. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open communications. At the conclusion of the audit fieldwork, significant issues are discussed with the auditee and a draft audit report is prepared. Senior audit staff then meet with senior management from the auditee to discuss the draft report and the management responses to our recommendations. In the case of organizations in the broader public sector, discussions are also held with senior management of the funding ministry.

Once the content and responses for each VFM audit report are finalized, the VFM audit reports are incorporated as sections of this chapter of the Annual Report.

Ministry of the Attorney General

Assessment Review Board and Ontario Municipal Board

1.0 Summary

In Ontario, boards and tribunals are created by the provincial government to facilitate mediation or make decisions independent of the government settling disputes between people or disputes between people and the government. Because the boards and tribunals hear evidence, engage in fact-finding, and make decisions that affect personal rights the way a court does, they are known as "quasi-judicial" agencies. The cases they hear are decided by board members, called adjudicators, and the process is known as adjudication.

Our audit focuses on the operations of the Assessment Review Board (Review Board) and the Ontario Municipal Board (Municipal Board), which form part of Environment and Land Tribunals Ontario.

Assessment Review Board (Review Board)

The Review Board hears appeals mainly about residential and non-residential property assessments and classification. The Municipal Property Assessment Corporation (MPAC) assesses and classifies all properties in Ontario, which affects how much property tax owners must pay to municipalities. If property owners dispute a property assessment from MPAC, they can appeal to the Review Board.

Our audit of the Review Board found that it was taking longer to resolve appeals than its targeted times and had about 16,600 appeals outstanding as of March 2017. Many property owners are waiting years (1,811 appeals have been outstanding for more than four years) for their assessment appeals to be settled, which leaves them at risk of not receiving a property tax refund in a timely manner if a decision is finally rendered in their favour. These delays can be particularly onerous for municipalities because they rely on property taxes to fund their operating budgets. Being required to refund millions in property taxes can cause financial difficulty for smaller municipalities.

Our specific concerns related to the Review Board are as follows:

- **Large backlog of unresolved appeals continues, with some appeals dating back to 1998.** Despite the decrease in the total number of appeals received since 2009, the Review Board has been struggling to eliminate its backlog. As of March 2017, we noted that the Review Board still had approximately 16,600 unresolved appeals, which were close to three times higher than the 5,830 outstanding appeals that it considered acceptable. While 14,790 appeals have been outstanding for four years or less, the Review Board could not provide us with a breakdown of these appeals between residential and

non-residential appeals but informed us they were largely non-residential. The remaining 1,811 appeals have been outstanding for more than four years, of which 564 of them have been outstanding between eight and 19 years. Of the 1,811 appeals, about 1,740 (or 96%) of them were non-residential appeals and the other 70 (or 4%) were residential appeals.

- **Delays in resolving large-dollar, non-residential appeals have created uncertainty for small municipalities.** Delays in resolving high-dollar assessment appeals negatively impair the small municipalities' ability to manage their fiscal affairs because the property taxes generated from these non-residential properties cover a significant portion of their communities' tax base. For example, the Review Board took approximately one-and-a-half years and four years respectively to resolve two non-residential appeals. The outcome of the Review Board's decisions significantly reduced the assessment value of two properties located in two small communities. Both municipalities were required to refund a total of $10.7 million in property taxes previously paid by the property owners during the 2009 to 2012 taxation years.
- **Annual caseload statistics reported to the public have been overstated for many years.** The *Assessment Act* (Act) provides that a person may file an appeal in any year of the four-year property assessment cycle. When an appeal is filed for a taxation year, but is not resolved in that taxation year, the Act stipulates that the appellant is "deemed to have brought the same appeal" for each subsequent year in the assessment cycle, which is called a "deemed appeal." The Review Board will automatically create a new appeal for the next tax year and repeat it until the end of the cycle if the appeal is not resolved earlier. Although the deeming rule is defined under the Act, determining which set of numbers and how the numbers should be presented are at the discretion of the Review Board. Because the Review Board chose to publicly report the *number of original appeals and the deemed* appeals together, the number of appeals received (32,000) reported in its annual report were overstated as much as 507% (the actual number of original appeals received was 5,272) in 2015/16.
- **The Review Board does not conduct quality reviews of members' oral decisions.** At the conclusion of a hearing, board members use their professional judgment, based on the evidence presented, to render either an oral decision or issue a written decision at a later date. Oral decisions represent approximately 80% of all board members' decisions. Unlike written decisions, oral decisions are not subject to peer quality assurance review.
- **The decision-making process by board members could be more transparent.** Decisions are discretionary: members exercise their professional judgment based on the evidence provided, and the majority of residential and non-residential appeals are decided orally by a single board member. But the Review Board does not audio record its hearings to allow for preserving the hearing for internal reviews, following up on complaints, protecting members from allegations of misconduct, serving as a memory aid for members when writing their decisions, and aiding evaluations of members' performance.
- **The actual work time reported by the Review Board's full-time members is not consistent or analyzed.** The Review Board does not have a formal policy requiring its full-time members (12) to record how the members spent their work hours. However, board members do have a practice of completing timesheets, but they were completed inconsistently. Also, we noted that between 2013 and 2016 about 1,540 hearings were cancelled three or fewer days before the hearing dates. Due to the short notices, it was very

difficult for the Review Board to reassign the full-time members to other hearings. We were informed that the full-time members would perform other duties, such as decision writing and/or other special assignments. However, since there are no requirements for the full-time members to consistently record how they spend their time, when their time became free after the short-notice cancellation of hearings, there was no formal record supporting how that freed-up time was spent.

- **Evaluation of the Review Board's overall performance needs improvement.** The Review Board reports publicly on only two performance measures: timeliness in resolving residential appeals (non-residential appeals are not included); and timeliness in issuing a decision. Overall performance measures, such as users' satisfaction and cost per appeal recommended by the Ministry of the Attorney General in 2015 were not reported.
- **Board members ranked low during a recruitment competition were appointed.** The *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009* requires that the selection process for the appointment of members to an adjudicative tribunal be competitive and merit-based. We found that it was not always clear that the selection process was followed. For example, in 2014, the Review Board re-interviewed and subsequently appointed three of the 17 unsuccessful candidates from the 2013 recruitment competition using a different panel. The Review Board's correspondence to the Ministry of the Attorney General indicated that these candidates had placed highly in the 2013 competition. However, board documentation did not support this as two of the three selected candidates did not receive high scores from the 2013 recruitment competition.

Ontario Municipal Board (Municipal Board)

The Municipal Board hears appeals primarily related to a wide range of land-use planning matters, such as amendments to municipalities' Official Plans and zoning bylaws, and minor variances. A minor variance is when a property owner asks a municipal Committee of Adjustment for permission to not meet a zoning bylaw, such as to place a shed where it does not meet setback requirements on the property. If owners are denied the minor variance, they can appeal to the Municipal Board. Appeals on cases other than minor variances, such as an amendment of an Official Plan to permit property developments, are usually more complicated and take longer to resolve.

In June 2016, the Ontario Government announced a comprehensive review of how the Municipal Board operates and its role in the Province's land-use planning system in an attempt to make it more affordable and accessible to all Ontario residents. In May 2017, the government introduced Bill 139. If the bill is passed, the Municipal Board would be re-named as the Local Planning Appeal Tribunal (Appeal Tribunal). One of the key proposed legislation changes related to complex land-use planning appeals is that the new Appeal Tribunal would only be able to overturn a municipal decision if it does not follow provincial policies or municipal Official Plans. The government's review is discussed further in **Section 2.4.4**.

Over the last several years, the public, including citizens and municipal councils, have criticized that Municipal Board decisions lacked objective and clear rationale, especially when the Municipal Board rendered decisions in overturning sections of municipal Official Plans. Also, citizen groups complained that they lacked a level playing field when appealing against complex land-use proposals from developers.

Our audit identified several operational issues that the Municipal Board should address before transitioning to the new Appeal Tribunal to help ensure it will function efficiently and cost-effectively in resolving land-use related disputes. Among our findings:

- **Operations of the Municipal Board need improvement before its transformation to a new tribunal.** We noted that some municipalities and appellants raised concerns whether board members were making fair and unbiased decisions, and some of them appealed the Municipal Board decisions to the court system. Also, several municipalities told us that they spent millions of dollars of taxpayer money to defend their Official Plans that were already approved by their elected councils and the Province. While the proposed legislation excludes the new Appeal Tribunal from hearing certain cases against municipal Official Plans, it does not address the operational issues related to the hearing process. The Municipal Board informed us that cases were assigned to board members based on factors such as members' background, their experience and workloads; however, in the majority of cases, only one member was assigned to hearings, and one-member decisions could be subjective. Similar to the Review Board, audio recordings of the hearings were not available at the Municipal Board for subsequent internal and/or external reviews, when needed.
- **Many appeals, both minor variances and complex cases, took an extensive period of time to resolve.** In 2016/17, the Municipal Board scheduled 1,349 new land-use appeal cases for a hearing, of which 421 or 30% were minor variances. The other 928 or 70% of the cases were more complicated land-use appeal cases. The Municipal Board did not establish a reasonable and acceptable turnaround time for both types of appeals. Based on an internal report prepared by the Municipal Board, we noted the following:
  - In 2016/17, the average number of days taken (from appeal received to decision issued) to resolve a minor variance case was, on average, 227 days. The Municipal Board also struggled in meeting its target of scheduling 85% of minor variance cases for a hearing within 120 days of the receipt of a complete package. The actual performance in 2016/17 was only 44%, significantly down from 81% in 2012/13.
  - For complex cases that were closed in 2015/16 (the most recent data readily available), the number of days taken from case received to case closed ranged from 10 months to almost seven years. In 2016/17, the Municipal Board scheduled 74% of complex cases for a first hearing within 180 days of the receipt of a complete appeal package. It was behind its 85% target.
- **Despite 80% of decisions being issued within 60 days after the end of a hearing, many others took almost a year to get done.** The Municipal Board's performance target is 85% of decisions will be issued within 60 days after the end of a hearing for all types of appeals. We noted that the Municipal Board was close to meeting its target at 80% in 2016/17. Of the 1,087 decisions issued in the same year, 218 of them took between 60 days and a year to complete. We noted that six of the 27 board members accounted for about 40% of the decisions that took longer than 60 days to issue between 2012/13 and 2016/17.
- **Target setting and evaluation of mediation efforts needed.** The Municipal Board intended to develop its capacity for mediation of appeals; however, it has not yet set a target nor did it measure the success or outcomes of mediation. The Municipal Board also stated that it had been encouraging mediation of appeals by the parties involved but was unable to demonstrate the success of its efforts. We noted that the Human Rights Tribunal of Ontario reports annually on the number of mediations held and the percentage of cases settled at mediation, but these measures were not used by the Municipal Board.

- **The actual work time reported by board members is not complete or analyzed.** Board members are a key resource to the Municipal Board because they facilitate mediations, conduct hearings and render decisions on appeals. However, the Municipal Board does not track the hourly work of its 20 full-time members to determine whether they were managing their caseload effectively and efficiently. Also, the Municipal Board has not done any analysis to determine whether the number of members was sufficient to handle existing workloads and to eliminate the backlogs. Backlogs are defined as those cases not meeting the Municipal Board's performance targets.
- **Insufficient documentation to justify the hiring of board members.** The *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009* requires that the selection process for the appointment of members to an adjudicative tribunal be competitive and merit-based. However, we found that this was not always the case. In 2016, five candidates were interviewed by a two-member panel for two full-time member positions. We found one of the members from the panel did not score any of the five candidates interviewed, and the other member of the panel did not provide a complete scoring for two of the five candidates. As a result, documentation was incomplete to demonstrate how the two successful candidates were selected.

This report contains 13 recommendations, consisting of 24 actions, to address our audit findings.

Overall Conclusion

Our audit concluded that although the Assessment Review Board (Review Board) had fulfilled its mandate to handle property assessments and other disputes in accordance with applicable legislation and regulations, it did not always do so efficiently as evidenced by the continuing backlog of appeals.

In addition, we concluded that the Ontario Municipal Board (Municipal Board) had fulfilled its mandate to handle land use planning and other disputes in accordance with applicable legislation and regulations. However, its operations need improvement to help it function more efficiently and effectively before its transition to a pending new tribunal.

Both the Review Board and Municipal Board also did not have accurate and complete data, such as caseload statistics and cost of an appeal to assess their cost-effectiveness, for decision-making, operations improvements, and public reporting. We found that the Review Board and Municipal Board did not have effective systems and procedures to ensure that board resources, such as board members' time, are best utilized to address the Review Board's backlogs and the Municipal Board's delays in scheduling and resolving appeals. Further, both boards did not always document their rationale for selecting board members.

OVERALL MINISTRY RESPONSE

Assessment Review Board

The Ministry of the Attorney General (Ministry) appreciates the Auditor General's observations and recommendations regarding the Assessment Review Board (ARB).

The Ministry recognizes the importance of ARB operations being conducted in accordance with applicable legislation, regulations, and in an efficient and cost-effective manner. Access to justice for all Ontarians is of paramount concern to the Government of Ontario. Adjudicative tribunals play a vital role in Ontario's justice system. Tribunals use their specialized expertise to adjudicate on a wide variety of disputes in an independent and impartial manner.

The ARB is a constituent tribunal of the Environment and Land Tribunals Ontario (ELTO) cluster, which consists of five tribunals that operate in the area of land use. Tribunal clustering is part of the government's strategy to promote cross-agency co-operation and

co-ordination of operations and administration. It enhances consistency in tribunal practices, procedures and decision-making.

The Ministry appreciates the efforts of the Office of the Auditor General in making recommendations to continue improve operations of adjudicative tribunals. The Ministry will continue to work with ELTO to monitor and track the recommendations to improve efficiency and cost-effectiveness in ARB operations.

Ontario Municipal Board

The Ministry of the Attorney General (Ministry) appreciates the Auditor General's observations and recommendations regarding the Ontario Municipal Board.

The Ministry recognizes the importance of OMB operations being conducted in accordance with applicable legislation, regulations, and in an efficient and cost-effective manner. Access to justice for all Ontarians is of paramount concern to the Government of Ontario. Adjudicative tribunals play a vital role in Ontario's justice system.

The OMB is a constituent tribunal of the Environment and Land Tribunals Ontario (ELTO) cluster, which consists of five tribunals that operate in the area of land use. Tribunal clustering is part of the government's strategy to promote cross-agency co-operation and co-ordination of operations and administration. It enhances consistency in tribunal practices, procedures and decision-making.

Additionally, the government has introduced legislation to overhaul the province's land-use planning appeal system.

The *Building Better Communities and Conserving Watersheds Act* seeks to create the Local Planning Appeal Tribunal (Tribunal), which would, if passed, replace the OMB. The result would be more efficient decision-making process at the Tribunal.

The Ministry appreciates the efforts of the Office of the Auditor General in making recommendations to continue improve operations of adjudicative tribunals. The Ministry will continue to work with ELTO to monitor and track the recommendations to improve efficiency and cost-effectiveness in OMB operations before it transitions to the prospective new Local Planning Appeal Tribunal.

OVERALL RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Assessment Review Board

The Assessment Review Board (ARB) appreciates the work of the Auditor General and welcomes advice on how to further improve our services. We are committed to addressing the recommendations for improvements to effectively and efficiently resolve disputes related to property assessment in Ontario.

The ARB intends to resolve 100% of its current and new caseload within the next four-year cycle ending March 31, 2021. Following extensive consultation with stakeholders, the ARB has introduced new processes and Rules of Practice to achieve this goal.

In addition, the ARB is also committed to refining performance measures, implementing public satisfaction surveys, and providing greater transparency for figures presented in the Annual Reports.

Ontario Municipal Board

The Ontario Municipal Board (OMB) appreciates the work of the Auditor General and welcomes advice on how to further improve our services. We are committed to addressing the recommendations for improvements to effectively and efficiently resolve disputes related to land use planning and other matters in Ontario.

Bill 139 and related regulations are expected to set out specific timelines for the resolution of the matters brought before the new Local Planning Appeal Tribunal (replacing the OMB). We will endeavour to measure and report on compliance with the legislated timelines in our Annual Report and Business Plans.

Environment and Land Tribunals Ontario and the OMB will be implementing new processes and Rules of Practice to support the timely resolution of appeals. In addition, we are also committed to refining performance measures and implementing public satisfaction surveys that will be reported on in our Annual Report.

2.0 Background

2.1 Overview of Environment and Land Tribunals Ontario

Environment and Land Tribunals Ontario (Tribunals) is a cluster of boards/tribunal that was created in 2010 under the authority of the *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009*. The primary purpose of establishing adjudicative agencies is to provide an easier and timely access to justice by diverting cases from the already overcrowded court system to a less expensive tribunal system.

The Tribunals consists of four boards and one tribunal:

- Assessment Review Board;
- Ontario Municipal Board;
- Board of Negotiation;
- Conservation Review Board; and
- Environmental Review Tribunal.

The mandate of the boards/tribunal is to effectively and efficiently resolve disputes related to property assessment, land-use planning, land valuation, environmental and heritage protection, and other matters. Their mission is to deliver modern, fair, responsive, accessible, effective and efficient dispute resolution services that support strong, healthy communities and the public interest.

For the year ended March 31, 2017, the Tribunals' total expenditure was $17.1 million, a decrease of 8% from $18.5 million in 2010/11 when it was established. The decrease was a result of the government's overall initiatives to meet savings targets imposed throughout the years. The total expenditure was not broken down by individual board or tribunal because the Tribunals is funded as one entity by the Ontario Government; funding is not provided directly to individual boards or tribunal.

This audit focused on the operations of two of the five boards and tribunal: the Assessment Review Board (Review Board) and the Ontario Municipal Board (Municipal Board). Both boards are adjudicative agencies that resolve disputes by facilitating mediated settlements or by making independent quasi-judicial decisions that are required to be evidence-based and compliant with provincial laws and policies.

The Review Board hears appeals about property assessment, classification and municipal tax appeals. Municipal tax appeals are when property owners seek a reduction of property taxes that were already levied because of special circumstances, such as a change in the physical condition of the building as a result of fire or demolition.

The Municipal Board hears appeals or disputes primarily related to land-use planning matters, such as Official Plans and zoning bylaws and their amendments, sub-divisions, and minor variances, as well as non-planning matters, such as development charges, heritage issues and expropriations.

The presiding member(s) are required to hear from parties involved in an appeal and make decisions based on the evidence and the relevant laws and policies.

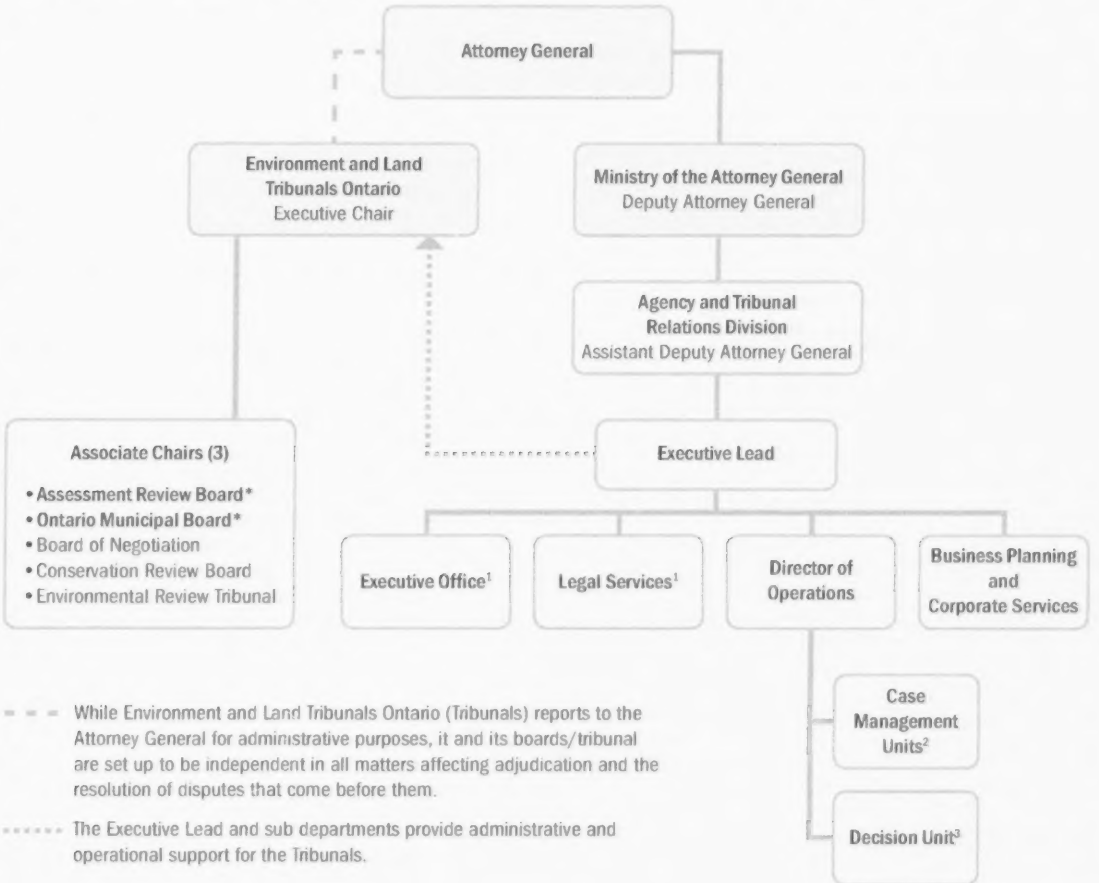
2.1.1 Reporting and Accountability Structure of Environment and Land Tribunals Ontario

Environment and Land Tribunals Ontario (Tribunals) is accountable to the Ministry of the Attorney General (Ministry) for administrative purposes, such as its annual funding and preparing and submitting annual reports. The Tribunals reports operational and financial performance, including reporting against set performance targets.

The Tribunals' boards/tribunal are set up to be independent in all matters affecting adjudication

Figure 1: Reporting and Accountability Structure of Environment and Land Tribunals Ontario

Source of data: Environment and Land Tribunals Ontario


Attorney General
Environment and Land Tribunals Ontario
Executive Chair
Ministry of the Attorney General
Deputy Attorney General
Agency and Tribunal Relations Division
Assistant Deputy Attorney General
Associate Chairs (3)
• Assessment Review Board*
• Ontario Municipal Board*
• Board of Negotiation
• Conservation Review Board
• Environmental Review Tribunal
Executive Lead
Executive Office[1]
Legal Services[1]
Director of Operations
Business Planning and Corporate Services
Case Management Units[2]
Decision Unit[3]
While Environment and Land Tribunals Ontario (Tribunals) reports to the Attorney General for administrative purposes, it and its boards/tribunal are set up to be independent in all matters affecting adjudication and the resolution of disputes that come before them.
The Executive Lead and sub departments provide administrative and operational support for the Tribunals.

* **Focus of this audit**

1. Executive Office and Legal Services also report to Environment and Land Tribunals Executive Chair.
2. The Case Management Units provide support for intake, review and verification of all appeals filed within the Tribunals, to ensure that applications for appeal meet the legislative deadline and jurisdictional requirements, and to collect all required data and information in preparation for any appeal hearing events.
3. The Decision Unit provides support for board and tribunal members by ensuring that their decisions are in compliance with the required hearing report format and that the members' decision reports contain no grammatical or spelling errors. This Unit is not permitted to interfere in the decision-making process followed by board members.

and the resolution of disputes that come before them. **Figure 1** shows the reporting and accountability structure of the Tribunals.

2.2 Appointment of Board Members and Their Responsibilities

Because both the Assessment Review Board (Review Board) and Ontario Municipal Board (Municipal Board) are responsible for making independent quasi-judicial decisions, the skills and qualifications of their members are essential to achieve their mandates. The *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009* requires that the selection process for the appointment of members to an adjudicative tribunal be competitive and merit-based. See **Appendix 1** for the process of new appointment of board members.

Under the Agencies and Appointments Directive, upon recommendation of the Executive Chair, a member can be appointed for an initial term of two years and after that the appointee is eligible for re-appointment for a three-year term. After completion of terms totalling five years and on the recommendation of the Executive Chair, the appointee is eligible for re-appointment for a further term of five years.

Board members are responsible for resolving disputes under applicable legislation, policies and statutes using a variety of dispute resolution methods. As an adjudicator, a member is required to do the following:

- understand and apply the relevant laws, policies and regulations;
- maintain impartiality and open-mindedness while conducting the hearing process;
- review and analyze all evidence and submissions thoroughly; and
- issue independent decisions that are timely and based on evidence and policy, sound and reasonable.

Board members are also required to comply with the Tribunals' conflict-of-interest rules and code of conduct.

As of March 2017, the Review Board had 21 members (12 full-time and nine part-time) and the Municipal Board had 27 members (20 full-time and seven part-time).

2.3 Assessment Review Board

2.3.1 Mandate of the Assessment Review Board

The Assessment Review Board (Review Board) is an independent adjudicative tribunal established under the *Assessment Review Board Act*, with a mandate to hear appeals about property assessment and classification and municipal tax appeals.

Property assessment appeals are typically filed with the Review Board by property owners who believe that their property has been incorrectly assessed or classified by the Municipal Property Assessment Corporation (MPAC). MPAC is a not-for-profit organization that delivers assessment services on behalf of all municipalities in Ontario. Our Office last audited MPAC in 2010. Since 2009, all residential property owners must file a Request for Reconsideration with MPAC as the first step in attempting to settle their appeal with MPAC before going to the Review Board.

The Review Board hears property assessment appeals under the *Assessment Act* and municipal tax appeals under the *Municipal Act, 2001*, the *City of Toronto Act, 2006*, and the *Provincial Land Tax Act, 2006*.

2.3.2 Property Assessment and Taxation in Ontario

Ontario's current property assessment and tax system plays a fundamental role in funding local municipal services as well as the Province's elementary and secondary school system.

Property taxes raise approximately $27 billion per year in Ontario. Approximately 65% of that amount relates to residential properties and 35% relates to business properties. There are approximately five million properties in Ontario.

As is the practice in many other North American jurisdictions, property tax in Ontario is calculated by multiplying a property's assessed value by an applicable tax rate. The tax rate is the sum of two numbers:

- multiple tax rates set by a municipality to enable it to meet its own budgetary needs; plus
- the education tax rate, set by the Province, to fund school boards.

The determination of each property's assessed value is critical because it ultimately determines how much tax a property owner must pay.

The Ministry of Finance, municipalities, MPAC, the Review Board and property owners are key players involved in the property tax and assessment system in Ontario. Their roles and responsibilities are summarized in **Figure 2**.

Figure 2: Key Players Involved in the Property Tax and Assessment System

Source of data: Assessment Review Board and Municipal Property Assessment Corporation

Key Player	Role and Responsibility
Provincial Government	The Ministry of Finance governs the property tax system in Ontario by establishing the following: • assessment policies • municipal tax parameters • education tax rate policies • other laws and regulations regarding property assessment
Municipalities	Administer the property tax system: • set municipal tax rates; and • bill and collect property taxes
Municipal Property Assessment Corporation (MPAC)	Provides assessment services on behalf of all municipalities in Ontario. Administers the property assessment system, including the classification and establishment of the assessed values for all properties across the province. MPAC's role in the appeal process is to prove the accuracy of its assessment.
Assessment Review Board	Hears appeals from property owners or municipalities who disagree with the accuracy of the assessment or classification that MPAC has established for a property.
Property owners	File an appeal with the Assessment Review Board if they disagree with their property assessment or believe their property is incorrectly classified based on their current use. Property owners can hire agents and lawyers, at their own cost, to represent them during the appeal process.

Under the *Assessment Act* (Act), MPAC assesses all properties in Ontario every four years to determine the most current assessed value. Each property is valued as of a valuation date, which the Act specifies is January 1 of the year preceding the four-year assessment cycle. The assessed value of a property for the current assessment cycle might be higher than its assessed value for the previous cycle. If this occurs, the property owner's taxes typically will increase. In such cases, the Act provides for a process known as "phasing." Rather than imposing the full tax increase on the property owner in the first year of the assessment cycle, the tax increase is imposed in stages. The property owner pays 25% of the tax increase for the first year, 50% in the second, 75% in the third, and 100% in the fourth year.

The Act sets both the year of assessment and the assessment cycle being covered. **Figure 3** indicates the last four assessment durations and the assessment cycles. For instance, effective January 1, 2016, MPAC issued assessment notices to property owners that indicated the assessed value of each property they owned. It also stated that the 2016 assessed value will be used to determine the property tax amount the owner has to pay during the upcoming four-year cycle—from 2017 to 2020.

The Review Board estimated that of the five million properties in Ontario that were assessed by MPAC, about 1% of these property assessments were appealed to the Review Board during a four-year property assessment cycle. Of these, approximately 70% were resolved or settled by the parties without a formal hearing on the merits held by the Review Board and only about 30% required a hearing by the Review Board within a four-year assessment cycle.

2.3.3 Assessment Appeal Process in Other Provinces

Overall, the assessment appeals system in other provinces differs than the system in Ontario in two main areas: the length of the property

Figure 3: Date of Property Assessment Valuation and the Assessment Cycles, 2005, 2008, 2012, and 2016
Source of data: Assessment Review Board and Municipal Property Assessment Corporation

Property Assessment Valuation Date *	Period Covered for Each Assessment Cycle
January 1, 2005	2006, 2007, 2008 (3 years)
January 1, 2008	2009, 2010, 2011, 2012 (4 years)
January 1, 2012	2013, 2014, 2015, 2016 (4 years)
January 1, 2016	2017, 2018, 2019, 2020 (upcoming 4 years)

* The Municipal Property Assessment Corporation is responsible for issuing assessment notices to all property owners in Ontario.

assessment cycle, and the party who conducts the property assessments.

With respect to the length of the property assessment cycle, we noted the following lengths:

- Saskatchewan: four years, which is the same as in Ontario;
- Manitoba: two years; and
- Alberta, British Columbia and Nova Scotia: annually.

While an annual assessment can provide a quicker reflection of changes in property values, the longer cycle could provide greater stability and predictability to property owners and municipalities because the increase of property taxes based on the changes in property values can be adjusted gradually over the phase-in period.

With respect to the party who conducts the property assessments, in British Columbia, the BC Assessment, a Crown corporation, functions similarly to MPAC in Ontario. Both Nova Scotia and Saskatchewan also have a corporation or agency that is responsible for property assessments, although municipalities in Saskatchewan are also able to arrange their own assessments. In Alberta, municipalities are responsible for performing the assessments with the Province retaining responsibility to assess only specialized classes of property, such as property used for power generation and transmission, telecommunications, pipelines and wells. In Manitoba, the Province is responsible for property assessments—with the exception of the City of Winnipeg, which is responsible for conducting its own assessments.

All Provinces provide property owners with the opportunity to formally appeal the results of their property assessment, but the appeal process varies. Highlights of the processes in British Columbia, Alberta, Saskatchewan, Manitoba and Nova Scotia are in **Appendix 2**.

2.4 Ontario Municipal Board

2.4.1 Land-Use Planning in Ontario

Land-use planning is a process of managing land and resources. **Appendix 3** summarizes the key legislation and authorities of land-use planning in Ontario.

The *Planning Act* (Act) is the basis for Ontario's land-use planning system. The Act defines the approach to planning and development in Ontario as well as the roles of the key participants, such as elected municipal councils. The key components of the land-use planning system include:

- provision for public consultation and input into decision making;
- procedures for the preparation of Official Plans, zoning bylaws, and the process considering land-use planning applications;
- municipal empowerment and accountability; and
- the role of the Ontario Municipal Board (Municipal Board) in adjudicating appeals related to land-use planning decisions.

The provincial government issues the Provincial Policy Statement and provincial plans that set out the matters of provincial interest regulating the development and land use throughout Ontario. The Provincial Policy Statement integrates the government's land use interests and applies to the entire province. The Ministry of Municipal Affairs is responsible for updating the Act and the Provincial Policy Statement and other provincial plans. This provincial-led policy regime is to be implemented by municipalities through their Official Plans and zoning bylaws. Official Plans establish broad land-use principles, whereas zoning bylaws are specific in their permissions or restrictions.

The current land-use planning process has resulted in greater local responsibility for managing land-use planning matters. Local communities set out their own goals and rules in their Official Plans, which control how they grow and develop. A municipality can amend its Official Plan at any time.

The Act requires public input in the planning process, especially in regard to a municipality's Official Plan. The Act provides the legal authority and procedures that decision-makers must follow. The Act also provides that approval authorities must ensure that their decisions are consistent with the Provincial Policy Statement and conform, or not conflict, with various provincial plans that are in effect. The Act generally creates the right of appeal for the public and proponent related to planning decisions.

2.4.2 Land-Use Appeal Process in Ontario and Role of the Ontario Municipal Board

The Ontario Municipal Board (Municipal Board) is set up as an independent adjudicative tribunal that renders decisions at arm's length from the government. The Municipal Board is authorized to hear appeals under the Act, such as Official Plans and zoning bylaws and their amendments. Board members' decisions are required to comply with the *Planning Act*, the Provincial Policy Statement, and other applicable provincial plans, and are in the public interest.

The Act creates the right of appeal by anyone or any party—for example, a corporation, a not-for-profit organization, a municipality or a concerned citizen—of municipal planning decisions. The Municipal Board has the authority to dismiss an appeal, or allow the appeal in whole or in part. The *Ontario Municipal Board Act* and the *Statutory Powers Procedures Act* define the Municipal Board's jurisdiction and authorities to conduct hearings.

The length of hearings can range from a few hours to several weeks, depending on the complexity of the appeal. The majority of hearings involve multiple parties, such as neighbours, proponents and municipalities. In addition, evidence is often given by experts, such as planning witnesses, with their evidence presented and cross-examined. During a hearing, a board member could hear evidence based on the Act, the Provincial Policy Statement, and municipal planning bylaws and rules. A board decision is required to tell the parties, particularly the side the decision goes against, how the decision was arrived at and the steps taken and evidence tested to ensure that the result was just and correct.

2.4.3 Land-Use Appeal Process in Other Jurisdictions

While other provinces, such as Alberta, Saskatchewan, Manitoba, New Brunswick, and Nova Scotia, have a provincial board that hears appeals related to land-use planning decisions, no provincial board in Canada has as extensive a jurisdiction over planning-related matters as the Ontario Municipal Board. This is because, in Ontario, more land-use matters are subject to appeal—from minor variance applications to major planning issues, such as the expansion of urban settlements.

Also, unlike Ontario, municipal Official Plans and similar planning documents in the majority of provinces cannot be appealed to their provincial boards. While the Manitoba Municipal Board

allows the appeals of Development Plans (similar to Official Plans in Ontario), these appeals need to be referred to them by the Minister of Indigenous and Municipal Relations and the Minister has the discretion as to whether or not they accept the board's recommendations following the board's review of the appeal.

The strongest contrast to the system in Ontario is in British Columbia, which has no formal land-use appeal board at the provincial or local government level. Local governments in British Columbia have been recognized as an independent, autonomous and accountable order of government since 1996. In British Columbia, if someone is not satisfied with a local government's land-use planning decision, he or she could consider initiating an action against the local government through the courts.

2.4.4 Government Review of the Ontario Municipal Board

Over the last several years, Ontario Municipal Board (Municipal Board) decisions have been criticized by the public as lacking objective and clear rationale, especially decisions that appeared to align with developers in overturning sections of municipal Official Plans and other zoning bylaws that took the municipalities years to develop. Citizen groups have also complained that they lacked a level playing field at the Municipal Board in dealing with complex proposals from developers.

In June 2016, the government announced a comprehensive review of how the Municipal Board operates and its role in the Province's land-use planning system in an attempt to make it more efficient and accessible to all Ontario residents. The government released a consultation paper in October 2016 that outlined the following five focus areas:

- the Municipal Board's jurisdiction and powers;
- citizen participation and local perspective;
- clear and predictable decision making;
- modern procedures and faster decisions; and
- alternative dispute resolution and fewer hearings.

The government review of the Municipal Board was largely based on over 1,000 submissions from stakeholders—such as municipalities, environmental groups, developers, and citizen associations—and from Ontarians who participated in any of the 12 public meetings held across the province.

The government heard a range of viewpoints regarding the Province's land-use planning system and the Municipal Board. These views included:

- citizens feel they do not have a meaningful voice in the process;
- more weight should be given to municipal decisions;
- board decisions are unpredictable;
- hearings cost too much and take too long; and
- there are too many hearings and more mediation should be used.

In May 2017, the government introduced Bill 139, an Act to enact the *Local Planning Appeal Tribunal Act, 2017* and the *Local Planning Appeal Support Centre Act, 2017* and to amend the *Planning Act*, the *Conservation Authorities Act* and various other Acts. The bill passed second reading in the Ontario Legislature in September 2017. The bill, if passed after its third reading and given royal assent, will further limit the scope of appeals that are currently heard by the Municipal Board under the *Planning Act* and will repeal the *Ontario Municipal Board Act*. The Municipal Board will be re-named as the Local Planning Appeal Tribunal (Appeal Tribunal).

The government's proposed reforms include the following:

- Giving greater weight to the decisions of local communities. For complex land-use planning appeals, the new Appeal Tribunal would only be able to overturn certain municipal decisions if they do not follow provincial policies or municipal Official Plans.
- Sheltering major planning decisions by the Province from appeal. Provincial approvals of

major planning documents would no longer be appealable.
- Making planning appeals more accessible to the public by creating the Local Planning Appeal Support Centre, a new independent agency that would provide free legal and planning support to Ontarians.
- Improving the hearing process at the Appeal Tribunal to make it faster, fairer and less adversarial, including:
  - requiring the Appeal Tribunal to hold a case-management conference in complex land-use planning appeals. This conference would be used to define and narrow the issues and discuss opportunities for settlement, including mandatory mediation for certain appeals;
  - increasing use of multi-member panels;
  - establishing timelines for hearing and pre-hearing processes. For example, limiting the time for oral presentations in major land-use planning appeals;
  - eliminating examination and cross examination by parties;
  - clarifying the Appeal Tribunal's power to guide a hearing, including asking questions, examining a party and requiring a party to produce evidence or witnesses. This active adjudication would keep the hearing focused and improve citizens' participation in the process;
  - improving predictability and accessibility through public posting of the Appeal Tribunal decisions, including executive summaries in plain language; and
  - the Minister may make regulations relating to practices and procedures of the Appeal Tribunal, including the conduct and format of hearing or pre-hearings, admission of evidence and format of decisions.

The government review did not look in depth at the operational issues of the Municipal Board, which is the primary focus of this audit.

3.0 Audit Objective and Scope

The objective of our audit was to assess whether the Assessment Review Board (Review Board) and Ontario Municipal Board (Municipal Board), in conjunction, when appropriate, with Environment and Land Tribunals Ontario (Tribunals) and the Ministry of the Attorney General (Ministry) had effective systems and procedures in place to ensure that:
- the Boards' resources for handling disputes are managed in an efficient and cost-effective manner, in accordance with applicable legislation and regulations; and
- accurate and complete data on the effectiveness of both Boards is collected, analyzed, and used for decision-making and operations improvements, and publicly reported in contributing to a fair, accessible and transparent justice system.

Both the Review Board and Municipal Board follow a quasi-judicial process in making their decisions. These decisions, and the judgment of the board members, were not a subject of this audit.

In planning for our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 4** for criteria). These criteria were established based on the applicable legislation, directives, policies and procedures, internal and external studies, and best practices. Senior Ministry management and the Tribunals' executives reviewed and agreed with the suitability of our objectives and associated criteria.

We conducted our audit between December 2016 and June 2017. We obtained written representation from the Ministry management and the Tribunals' executives that, effective November 10, 2017, they have provided us with all information they were aware of that could significantly affect the findings or the conclusion of this report.

Our audit work was conducted at the Boards' office in Toronto. In conducting our audit, we reviewed relevant documents and decisions, analyzed information, interviewed appropriate Ministry staff and board members and staff, and reviewed relevant research from Ontario and other provinces. The majority of our file review went back three to five years, with some trend analysis going back as far as 10 years. We also attended several hearings handled by both Boards to obtain more understanding of the actual hearing process.

We met with numerous representatives and stakeholder groups to get their perspectives on the operations of both Boards.

As for the Review Board, we met with representatives of the Ministry of Finance and the Municipal Property Assessment Corporation, which administers the property assessment system—including the classification and establishment of the assessed values for all properties across the province. In addition, we talked to representatives from stakeholder groups, including the Association of Municipalities of Ontario, the Ontario Municipal Tax and Revenue Association, the Municipal Finance Officers' Association of Ontario, several municipalities, and agent representatives for property owners.

To assist our understanding of the Municipal Board, we talked with representatives from stakeholder groups, including the Regional Planning Commissioners of Ontario, the Association of Municipalities of Ontario, the Building Industry and Land Development Association, and the Ontario Professional Planners Institute. We also held discussions with municipalities to gain their perspectives on the appeal process at the Municipal Board.

We reviewed relevant documents regarding the recent government review of the Municipal Board. These included information on the public consultations gathered from the town hall meetings in fall 2016; submissions by municipalities and stakeholder groups; briefing notes and presentations to Ministry senior management; and other internal documents.

We reviewed a sample of decisions rendered by the Municipal Board between 2013 and 2016, based on major complaints from the public. Our review of these cases was intended to identify areas in which the Municipal Board could improve its operations, not to question the merits of the decisions made by individual board members.

In 2013 and 2015, the Ministry's internal audit, among other things, reviewed the per diem payments to part-time board members at both the Review Board and Municipal Board. Since then, both Boards revised and strengthened their fee-for-service framework to compensate their part-time members starting in January 2017. As a result, our audit regarding the use of board members' work hours was largely focused on full-time members.

4.0 Detailed Audit Observations—Assessment Review Board

4.1 Property Owners Wait Years for Property Assessment Appeals To Be Resolved

4.1.1 Number of Property Assessment Appeals Decreased Since 2009, but Backlogs Significant

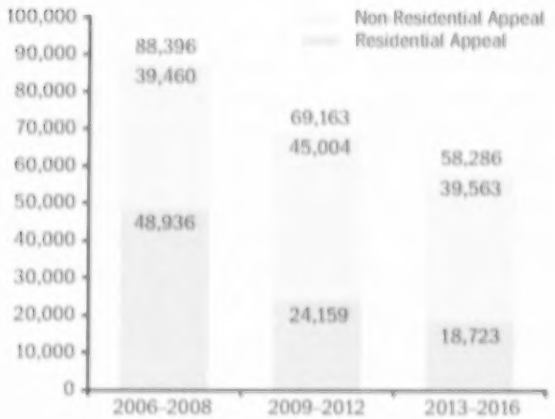
The Assessment Review Board (Review Board) categorizes property assessment appeals as two types: residential and non-residential.

Over the past three assessment cycles up to 2016, the total number of property assessment appeals received by the Review Board has decreased 34% from approximately 88,400 in the 2006–2008 cycle to approximately 58,290 in the 2013–2016 cycle. **Figure 4** shows the decreasing trend.

While the number of non-residential appeals remained relatively stable over the same period, the number of residential appeals decreased significantly—by 62%.

Figure 4: Number of Appeals Received by Assessment Review Board, by Type, by Property Assessment Cycle 2006–2008, 2009–2012, and 2013–2016

Source of data: Assessment Review Board



Note: The figures exclude the number of municipal tax appeals (about 960 during 2013-2016 cycle); and deemed appeals that are considered duplicated counts by the Office of the Auditor General (discussed in **Section 4.2**).

The decrease in residential appeals was primarily due to an amendment to the *Assessment Act* made in 2009. The amendment requires all residential property owners to file a mandatory Request for Reconsideration with the Municipal Property Assessment Corporation (MPAC) before owners can file a property assessment appeal with the Review Board.

4.1.2 Review Board's Previous Attempts to Reduce Backlogs Had Minimal Improvement

Although the total number of residential appeals has decreased significantly since 2009, the Assessment Review Board (Review Board) has been struggling to eliminate its backlog. **Sections 4.1.2** to **4.1.4** discuss the backlog issue.

The *Assessment Act* requires that appeals before the Review Board should be heard and disposed of by the Review Board "as soon as practicable," which is up to the Review Board. As shown in **Figure 5**, the Review Board resolved the following percentage of appeals in its cycles:

- 75% in 2013–2016;
- 67% in 2009–2012; and
- 68% in 2006–2008.

In February 2013, the Review Board revised its "appeals streaming strategy" for the 2013–2016 assessment cycle. A key scheduling consideration was that adjournments would be granted at the discretion of the Review Board only in limited circumstances, such as emergencies. The Review Board's goal was to resolve the entire backlog related to the tax years from the 2009–2012 cycle and earlier, and to resolve 90% of all appeals received during the 2013–2016 cycle.

During the 2013–2016 property assessment cycle, the Review Board received a total of 58,286 assessment appeals; 39,563 (68%) appeals on non-residential properties and 18,723 (32%) appeals on residential properties. Approximately 70% of the property assessment appeals were filed in 2013, the first year of the cycle.

If the Review Board had met its internal target, it would have resolved all outstanding property assessment appeals received during the 2009–2012 and earlier cycles, leaving approximately 5,830 property assessment appeals outstanding. This is based on the Review Board's goal to resolve 90% of about 58,290 appeals outstanding at the end of the 2013–2016 cycle.

However, as of March 2017, we noted that the Review Board still had 16,601 unresolved appeals, which were close to three times higher than the targeted 5,830 outstanding appeals. **Figure 6** shows the breakdown of the 16,601 outstanding appeals by their filing dates. While 14,790 appeals have been outstanding for four years or less, the Review Board could not provide us with a breakdown of these appeals between residential and non-residential appeals but informed us they were largely non-residential. The remaining 1,811 appeals have been outstanding for more than four years, of which 564 of them have been outstanding between eight and 19 years. Of the 1,811 appeals, about 1,740 (or 96%) of them were non-residential appeals and the other 70 (or 4%) were residential appeals.

Figure 5: Number of Appeals* Received and Resolved, for the 2006-2008, 2009-2012, and 2013-2016 Property Assessment Cycles

Source of data: Assessment Review Board

Cycle	# of Appeals* Received (A)	# of Appeals* Resolved Within the Same Cycle (B)	% Resolved
2006–2008	88,400	60,440	68
2009–2012	69,160	46,360	67
2013–2016	58,290	43,500	75

* Excludes the number of municipal tax appeals received by the Assessment Review Board. During the 2013-2016 cycle, the Review Board received about 960 municipal tax appeals.

As mentioned above, the Review Board was able to resolve 75% of appeals in the 2013–2016 cycle, but this rate was far from its 90% targeted resolution rate.

Appeals Streaming Strategy Not Effective

Although the 2013–2016 strategy was to address delays in processing appeals, the strategy did not prove to be as effective as the Review Board expected for the following reasons:

- The Review Board stated that it was not proactive in managing its caseload; rather, the parties controlled the movement of appeals through the system and the Review Board was reactive by granting repeated adjournments.
- Although the Review Board knew that, historically, approximately 70% of property assessment appeals are received in the first year of a four-year cycle, it did not consider whether the existing number of board members was sufficient to resolve the cases when they are filed in the first year.
- Based on our discussion with representatives from municipalities, board members, the Review Board's Associate Chair, and the Municipal Property Assessment Corporation (MPAC), we heard that the parties to an appeal often failed to provide complete and timely exchange of required information before their hearings occurred. All parties contributed to the delays. However, the Review Board had no detailed information to further analyze the reasons for delays.
- The Review Board tried to impose a requirement that a pre-hearing be held within 18 months of receipt for all non-residential appeals, but failed because it did not enforce this timeline, nor establish any consequence for non-compliance. In many cases, the Review Board granted adjournments because one or more of the parties had not completed the pre-hearing exchange of pleadings or disclosure. The Review Board rarely rejected a request for an adjournment, even though it had the legislative authority to deny an adjournment unless warranted. We noted that the average number of adjournments had remained unchanged at three adjournments per appeal that went to a hearing from the 2009–2012 cycle to the 2013–2016 cycle.
- The Review Board attempted to use telephone conference calls with the parties to set pre-hearing dates. According to several board members, MPAC, and municipality representatives, the calls were not effective to establish pre-hearing dates because parties would not comply with a date. The time spent by board members in making those calls was not productive. During the 2013–2016 cycle, board members made a total of 7,500 calls. The Review Board estimated that the time to

Figure 6: Breakdown of the Number of Property Assessment Appeals Outstanding as of March 2017

Source of data: Assessment Review Board

Cycle(s)	# of Appeals Received that were Outstanding as of March 2017	Length of Time Unresolved as of March 2017
2013–2016	14,790[1]	4 years or less
2009–2012	1,247	Over 4 years and up to 8 years
1998–2008	564[2]	Over 8 years and up to 19 years
Total	**16,601**	

1. Further breakdown of the 14,790 was unavailable. However, based on the best data available that was generated in another report, the breakdown of the number of 11,578 outstanding appeals was as follows:
   - 2,206 appeals were filed for the taxation year 2016;
   - 2,783 appeals were filed for the taxation year 2015;
   - 1,636 appeals were filed for the taxation year 2014;
   - 4,953 appeals were filed for the taxation year 2013.
2. Sixty-four of the 564 appeals were filed in 1998.

arrange and conduct a single telephone conference call required four to five hours of both administrative staff time and board members' time. Due to the telephone conference calls not being a productive tool to a timelier resolution of the appeals, by the end of 2016, the Review Board discontinued the use of these calls to establish pre-hearing dates.

Review Board Has Set Target to Clear All Backlogs by 2020

For the upcoming 2017–2020 cycle, the Review Board set a target to resolve all appeals—both existing backlogs and new appeals—by the end of 2020 using new established timelines. Once an appeal commences, all parties must follow the new timeline, which can only be amended or adjourned in exceptional circumstances. Examples of exceptional circumstances are serious illness of a party or family member, accidents, or storms. Vacations and scheduling conflicts are not considered exceptional circumstances.

Based on the Review Board's historical resolution rate of property assessment appeals over the past three tax cycles, its target for the 2017–2020 cycle may be optimistic. The Review Board indicated to us that it intended to increase the use of mediation for non-residential appeals as an alternative dispute resolution so that more non-residential appeals can be settled without a formal hearing. However, we noted that the number of non-residential appeals scheduled for mediation was low—close to 1,450, which represented only 4% of the 39,563 non-residential appeals received during the 2013–2016 cycle.

Other Jurisdictions Use Advanced Technologies to Manage Files

We noted that other jurisdictions use advanced technologies that could help manage the appeal files more effectively. For example, the Assessment Review Board for the City of Calgary offers an e-portal that allows users to file and manage their appeals on property or business assessments. While Ontario allows users to file appeals electronically, the e-portal for the City of Calgary also allows users to submit evidence disclosures, request postponements, submit withdrawal requests and access the board decision through the same secure password-protected portal.

One of the tools used by the Property Assessment Appeal Board in British Columbia is online dispute resolution. This involves parties to an appeal communicating with each other in a secure

online platform with board facilitation in an effort to resolve their dispute. The Property Assessment Appeal Board of British Columbia reported in its 2016 annual report that while online dispute resolution took more time for parties and board members than a one-hour teleconference, the resolution rate using this method over the last four years was higher than when teleconferences were used.

Review Board Estimates It Needs 10 More Part-Time Members to Handle Caseload

After the end of our fieldwork, the Review Board prepared an internal document, dated July 31, 2017, that identifies the staffing needs for the 2017–2020 assessment cycle. Based on its historical data and assumptions, the Review Board estimated that it would require 10 part-time members by the end of 2018 in addition to the nine part-time and 12 full-time members as of March 2017. However, the Review Board had not yet forecast the financial requirement to pay for the additional part-time members in its proposal. The Review Board also stated that even a small change in the rates of mediation and settlement will significantly impact the number of members required to manage its caseload.

4.1.3 Large Number of Appeals Are Pending Resolution; Some Cases Date Back to 1998

As of March 2017, the Assessment Review Board (Review Board) had about 1,810 appeals that have been outstanding since they were filed between 1998 and 2012—about 1,740 related to non-residential properties and about 70 to residential properties. The assessment value of the properties being appealed totalled approximately $20 billion. Sixty-one percent of these properties were located in the Greater Toronto Area, 20% were in southwest Ontario, and the remaining 19% were in the central, eastern and northern regions of the province.

The Review Board cited complexity as the primary reason for the backlog of cases dating back for many years. As shown in **Figure 4** in **Section 4.1.1**, starting in 2009, the majority of appeals filed were non-residential properties, which are typically more complicated, and therefore, take longer to resolve than appeals on residential properties.

We reviewed a sample of the older outstanding appeals filed in 2012 or earlier and found that the Review Board scheduled a series of hearing events, but no conclusion or settlement was reached on the appeals. The delays affected property owners, residential and non-residential, as well as municipalities.

It is important to both municipalities and property owners that appeals before the Review Board are resolved in a timely manner. Excessive delays negatively impact their ability to effectively manage their financial affairs. For example:

- An appeal on a residential housing complex with an assessed value of $8.9 million was filed with the Review Board in February 2012 for the 2011 tax year. An initial hearing event for the property was held in July 2012, five months after the appeal was filed. The Review Board granted four adjournments between 2012 and 2016. For example, a full hearing was scheduled for April 2016 but was adjourned with no justification provided. Because the appeal was still outstanding at the time of our audit, the ultimate financial impact on the municipal property tax—whether the owner has to pay less or more—was unknown at the time of our audit.
- An appeal was filed in March 2009 on a yacht club assessed at $294 million in the 2009 tax year. An initial hearing event for the property was held in December 2010, one year and nine months after the appeal was filed. Since then, there have been 14 hearing events, including several telephone conference calls, between 2011 and 2017. The case also was delayed by the Review Board granting numerous adjournments. The appeal was still outstanding in June 2017, at the end of our audit fieldwork.

The impact of delays on municipalities is discussed further in **Section 4.1.4**.

Appeals Concerning Multiple Properties with Same Owner Take Years to Resolve

We found 1,380 of the 1,810 older appeals were classified by the Review Board as "central issue" appeals. Central issue appeals are multiple appeals from the same owner of properties located throughout the province but are being appealed based on the same issue regarding the assessed value. For example, a large retailer with multiple stores appealed the assessment methodology used for similar properties.

These appeals are grouped together and managed by an individual board member, who brings the two sides together in an attempt to develop a consistent approach to managing the multiple appeals. To avoid any perception of bias, the board member managing the central issue would not be the same board member who hears the appeals related to the central issue.

We reviewed a sample of central issue appeals to understand why they took significant time to resolve. The following case, with sequences of events, provides insight why central issues took years to resolve:

- A large retailer filed an appeal in early 2009 for 167 stores across the province for the 2009–2012 assessment cycle and, when it was not settled, filed another appeal in early 2013 for 212 stores for the 2013–2016 assessment cycles. The retailer argued that the assessment methodology used by MPAC resulted in its properties being assessed at a higher value than they should be.
- In 2013, the parties brought a motion to the Review Board to have all the appeals combined and handled together. After that, serious negotiations began between the retailer and MPAC. The Review Board indicated that since 2013, 24 hearing events, such as teleconferences, were held.
- In 2016, the parties agreed on an assessment methodology for the properties. The combined decrease in assessed value for the stores was approximately $300 million in the 2009–2012 cycle and $335 million in the 2013–2016 cycle. We followed up with a sample of municipalities and noted that the amount of property tax refunds that they had to issue to the large retailer as a result of the re-assessments ranged from $80,000 for one store in one municipality to $1.7 million for two stores in another municipality.

We noted that several affected municipalities across the province expressed concerns with the adjusted values for the retail properties because they resulted in large property tax refunds to the property owner for both the 2009–2012 and 2013–2016 cycles and also because the appeals took a long period of time to resolve. If the appeals for the 2009–2012 cycle had been settled prior to the property assessment for the 2013–2016 cycle, appeals for the 2013–2016 cycle may not have had to be filed. The difficulty this system has caused municipalities is discussed further in **Section 4.1.4** below.

4.1.4 Delays Have Created Uncertainty for Municipalities

An efficient and timely property assessment appeal process is an important component of procedural fairness and timely access to justice. Because the municipal tax payable by property owners is calculated based on a percentage of their property's assessed value, it is important to both municipalities and property owners that appeals before the Assessment Review Board (Review Board) are resolved efficiently. Failure to dispose of appeals in a timely manner results in both a backlog of appeals and a period of time in which both the municipality and the property owner are unsure whether property tax has to be paid or refunded.

For a municipality, the excessive delays in resolving high-dollar property assessment appeals negatively impact its ability to effectively manage

its fiscal affairs. To cover the losses in property tax revenue, a municipality might be forced to increase its future property tax rates and/or reduce existing municipal services or seek assistance from the Province.

For example, the Review Board took approximately one-and-a-half years and four years respectively to resolve two cases. The outcome of the Review Board's decisions significantly reduced the assessment value of two properties located in two small communities. The property taxes generated from the two properties cover a significant portion of the communities' tax base. The municipalities were required to refund a total of $10.7 million in property taxes previously paid by the property owners during the 2009 to 2012 taxation years.

Based on our discussion with municipal stakeholders, we noted that they have had difficulties in establishing adequate reserves for their annual budgets because the appeal system is on a four-year cycle. This is compounded when appeals are not resolved from earlier tax cycles because it is even more difficult for the municipalities to establish an appropriate reserve for multiple tax cycles.

RECOMMENDATION 1

To help ensure timely resolution of appeals, we recommend that the Assessment Review Board:

- enforce its new timelines, policies and procedures to be complied with by all parties involved in an appeal;
- minimize the number of outstanding appeals from the 2017–2020 property assessment cycle; and
- assess the cost-benefit of using new technology, such as online dispute resolution and storing appeal information and evidence electronically, and take steps to use such technology as warranted.

MINISTRY RESPONSE

The Ministry of the Attorney General (Ministry) will monitor and track the Assessment Review Board (ARB)'s commitment to resolve its backlog by March 31, 2021.

The Ministry will monitor ARB improvements to processes and procedures.

The Ministry will work with Environment and Land Tribunals Ontario to assess its business case for new technology. There is a long-term ministry technology plan in place to help all tribunals modernize their operations.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Timeliness and efficiency are core values of the Assessment Review Board (ARB) and Environment and Land Tribunals Ontario (ELTO). Proceedings will be conducted in a just, expeditious and cost-effective manner and will be proportional to the issues that must be determined to resolve the dispute.

The ARB reviewed its processes and procedures that were in place for the 2013 to 2016 assessment cycle. We recognized the opportunity for improvement and held numerous consultations with stakeholders. The ARB intends to resolve 100% of its current and new caseload within the next four-year cycle ending March 31, 2021. The ARB has introduced new processes and Rules of Practice to achieve this goal.

ELTO will be seeking approval and funding from the Ministry of the Attorney General to develop and implement new technology to assist with the timely resolution of appeals and that will provide better data allowing for improved tracking and analysis.

4.2 Annual Caseload Statistics Reported to the Public Overstated for Many Years

The *Assessment Act* (Act) allows a person to file an appeal in any year of the four-year assessment cycle. When an appeal is filed for a taxation year but is not resolved in that taxation year, the Act

stipulates that the appellant (the person who is appealing) is "deemed to have brought the same appeal" for each subsequent year in the taxation cycle, which is called a "deemed appeal." The Assessment Review Board (Review Board) will automatically create a new appeal for the next tax year and repeat it until the end of the cycle if the appeal is not resolved earlier.

For example, if an appeal was filed in the first taxation year of the assessment cycle but is not resolved until the fourth year of the cycle, the Review Board will count the appeal four times—one for the original appeal and three deemed appeals. The deeming requirement also saves a property owner from having to re-file or pay a fee for an appeal in the subsequent years if it was not resolved in the first year.

Although the deeming rule is defined under the Act, determining caseload numbers and how the numbers should be presented are at the discretion of the Review Board.

In its annual report, the Review Board publicly reports its caseload statistics using both the original and deemed appeals from both residential and non-residential property owners. (It also reports appeals of municipal taxes but the numbers were small.) We found that the numbers shown in the annual report were significantly overstated: as much as 507% in 2015/16 as shown in **Figure 7** and further explained below. The Review Board provided an explanation of the statutory requirement for deemed appeals in its annual report, but the explanation does not quantify or indicate the workload impact of these additional appeals.

In addition, the Review Board does not normally track or monitor the original and deemed appeals separately. At our request, the Review Board generated the numbers of the original appeals for comparison. **Figure 7** compares the two sets of caseload statistics. Column A shows the numbers in the annual report versus Column B, which is the actual caseload. Column A includes the number of original appeals, any subsequent deemed appeals, and municipal tax appeals. Column B includes the original appeals only. While Column B excludes the number of municipal tax appeals, the numbers were so small that they did not justify the large gaps between the two sets of numbers. Because the Review Board chose to publicly report the number of original appeals and the deemed appeals together, the annual caseloads reported in its annual report were significantly overstated.

Based on our discussions with board members and staff, the deemed appeals create minimal amount of additional work for the board members. During a hearing, the member will render the same decision for the original and deemed appeals. Any additional work is largely administrative.

RECOMMENDATION 2

To ensure the public is well informed of complete and relevant information and the Assessment Review Board (Review Board) has information useful for its own decision making, we recommend that the Review Board explain how the existing statistics are arrived at and report on the numbers that better reflect its caseloads in its annual report.

MINISTRY RESPONSE

The Ministry of the Attorney General will work with Environment and Land Tribunals Ontario to monitor and track reporting on deemed appeals.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

The *Assessment Act* (Act) mandates the deeming of appeals. Under the Act, there are several distinct forms of deeming, including annual (section 40), factual error (section 32), omitted (section 33) and supplementary (section 34). The creation of deemed appeals has been automated within the Assessment Review Board (ARB)'s case management system. However, each deemed appeal must still be scheduled,

Figure 7: Caseload Statistics Comparison, 2013/14–2015/16

Source of data: Assessment Review Board

	# Shown in the Annual Report[1] (A)	# of Actual Caseload[2] (B)	Difference (A) – (B)	Overstated by %
April 1, 2013–March 31, 2014				
Opening Balance	80,000	34,390	45,610	133
Appeals Received	45,000	27,255	17,745	65
Total Appeals for Year	125,000	61,645	63,355	103
Appeals Resolved	63,000	19,803	43,197	218
Balance End Fiscal Year	62,000	41,842	20,158	48
April 1, 2014–March 31, 2015				
Opening Balance	62,000	41,842	20,158	48
Appeals Received	42,000	6,323	35,677	564
Total Appeals for Year	104,000	48,165	55,835	116
Appeals Resolved	38,000	17,336	20,664	119
Balance End Fiscal Year	66,000	30,829	35,171	114
April 1, 2015–March 31, 2016				
Opening Balance	66,000	30,829	35,171	114
Appeals Received	32,000	5,272	26,728	507
Total Appeals for Year	98,000	36,101	61,899	171
Appeals Resolved	37,000	13,244	23,756	179
Balance End Fiscal Year	61,000	22,857	38,143	167

1. Numbers include the original appeals, deemed appeals, and municipal tax appeals. The number of municipal tax appeals filed at the Assessment Review Board was small: 436 in 2013; 378 in 2014; 136 in 2015; and 9 in 2016.
2. Numbers include the original appeals only.

heard and a decision rendered. For deemed appeals, the issues raised may be different from the original appeal and the adjudicator must make a decision for each deemed appeal.

In the interests of greater transparency and clarity, the ARB will undertake in future reports to separate out the figures for original and the categories of deemed appeals (annual, factual error, omitted and supplementary).

4.3 Evaluation of Review Board's Overall Performance Needs Improvement

The Assessment Review Board (Review Board) can measure its performance in a number of areas and use this information. However, the Review Board reports publicly on only two performance measures: timeliness in resolving residential appeals only—non-residential appeals are excluded; and timeliness in issuing a decision.

The Review Board has a target of resolving 90% of residential appeals within 365 days of receipt. The Review Board reported that it had achieved beyond its target with an actual performance of 100% in 2013/14, 2014/15 and 2015/16, and 98% in 2016/17. In comparison, another report we received from the Review Board indicated that, as of March 31, 2017, 1,358 residential appeals that were filed for the 2013 to 2016 taxation years had been outstanding for over 365 days. We found that the 1,358 figure was significantly higher than an estimated 380 residential appeals expected to

be outstanding if the Review Board had achieved beyond its targets in all four fiscal years up to 2016/17. After we brought up the discrepancy to the Review Board, it confirmed that the actual performances published between 2013/14 and 2016/17 were incorrect due to an error later identified in the logic in programming to arrive at the figures. The Review Board informed us that it will fix this error in its future performance reports. In addition, we also question whether the 365 days is reasonable and acceptable to residential property owners.

The Review Board has a target of issuing 90% of decisions within 60 days after the hearing ends. The Review Board achieved beyond its target at 97% in both 2015/16 and 2016/17.

Some additional performance measures that the Review Board can include, however, are the following:

- timeliness in resolving non-residential appeals. They represented almost 70%, or about 39,560 of 58,290 appeals, of its total caseload during the 2013–2016 cycle;
- users' satisfaction. For example, determine whether home owners are satisfied with the existing targeted 365-day turnaround time for residential appeals; and
- cost per appeal.

We suggested the first performance measure—the timeliness in resolving non-residential appeals—because the Review Board does not measure this for non-residential appeals.

The last two performance measures were suggested by the Ministry of the Attorney General in 2015 to all tribunals to better evaluate their performances. However, the Review Board was not reporting them at the time of our audit. It indicated that it was working on these additional performance measures. It noted that progress was dependent on the resources available at the Government Justice Technology Services, which provides information technology support services to the Review Board. Additional staff time from the Government Justice Technology Services will be needed to extract the required data from the Review Board's information system to track and monitor the additional performance measures.

Cost Per Appeal Cannot Be Calculated

With respect to the calculation of the actual cost per appeal, the Review Board does not have the data to determine the ratio. This is because of the following:

- the expenditures for all five boards/tribunal are combined and reported under Environment and Land Tribunals Ontario (Tribunals). The expenditures are not broken down by individual boards/tribunal;
- the Tribunals has two Registrars who are responsible for the operations of all five boards/tribunal. The time spent by the two Registrars by individual boards/tribunal is not recorded;
- similar allocation is lacking for other back-office costs, such as payroll, finance, training, supplies, overhead and other administration costs; and
- the lack of information on how board members spend their work hours, which is discussed in **Section 4.4**.

Review Board Does Not Analyze Results of Members' Decisions

The Review Board does not monitor results of members' decisions to identify whether systemic problems exist with current assessment values and property classifications. By identifying whether any issues exist, corrective action could be taken to improve the consistency of the property assessment and appeal process. Based on discussions with board members, they indicated that such reviews of decisions might be beneficial, but it is not within the Review Board's jurisdiction to conduct the reviews. Any changes to the jurisdiction of the Review Board are required to be legislated by the Ministry of Finance. The Review Board further indicated that each appeal is different and unique

and that it is difficult to ascertain whether systemic problems exist.

During our audit, we requested information on members' decisions made on property assessment values and classifications. For the five years between 2012 and 2016, we noted the following (see **Figure 8**):

Residential Appeals:

- on average, for 5% of the residential appeals, members assessed the properties higher than the amount assessed by the Municipal Property Assessment Corporation (MPAC);
- 21% of the appeals resulted in no change in value;
- 74% of the appeals resulted in lower property values; and
- the total re-assessed value was reduced by 8.4%.

Non-Residential Appeals:

- on average, for 4% of the non-residential appeals, members assessed the properties higher than the amount assessed by MPAC;
- 24% of the appeals resulted in no change in value;
- 72% of the appeals resulted in lower property value; and
- the total re-assessed value was reduced by 9.3%.

For property classification, in 83% of appeals, the members agreed with the property classification determined by MPAC and in 17% the members disagreed.

These results show that in the majority of the property assessment appeals that make it to a formal hearing on the merits and are not otherwise settled or withdrawn, the Review Board disagreed with the initial property values assessed by MPAC.

We noted that other administrative tribunals, such as the Human Rights Tribunal of Ontario, the Social Benefits Tribunal, and the Social Security Tribunal of Canada, report on the outcomes of their decisions:

- Both the Human Rights Tribunal of Ontario and the Social Benefits Tribunal report on the number and percentage of appeals granted versus denied.
- The Social Security Tribunal of Canada reports on the number and percentage of the applicants who were successful or denied in appealing decisions on Employment Insurance, Old Age Security and the Canada Pension Plan.

The Review Board could also consider publicly reporting on an outcome measure, such as the number of decisions issued by the Review Board, and overall percentage change in assessed value by property type, residential and non-residential. This data would not be used to evaluate the performance of the Review Board; rather, the data could provide transparency to the public on the outcomes of the Review Board's decisions as a whole.

Figure 8: Summarized Result of Decisions Made by the Assessment Review Board, Five Years Aggregate, 2012–2016

Source of data: Assessment Review Board

	% of Appeals			Decision Value
	Assessed Higher than the Value Assessed by MPAC*	No Change	Assessed Lower than the Value Assessed by MPAC*	Compared to the Initial Value Assessed by MPAC*(%)
Residential	5	21	74	Reduced by 8.4
Non-Residential	4	24	72	Reduced by 9.3

* The Municipal Property Assessment Corporation (MPAC) is responsible for the classification and establishment of the assessed values for all properties across the province.

RECOMMENDATION 3

To better evaluate and report on its key activities and increase its transparency to the public, we recommend that the Assessment Review Board:

- establish a reasonable target to resolve non-residential appeals and measure it against its actual performance;
- report on other performance measures, which can be separately measured on residential and non-residential appeals, such as user satisfaction, average cost per appeal and average turnaround time in handling appeals, as suggested by the Ministry of the Attorney General; and
- report on its overall outcome of decisions by types of appeals.

MINISTRY RESPONSE

The Ministry of the Attorney General (Ministry) will monitor and track the Assessment Review Board (ARB)'s commitment to resolve its backlog by March 31, 2021.

The Ministry will continue to work with Environment and Land Tribunals Ontario (ELTO) to further develop and implement performance measures.

The Ministry will monitor results of the customer service survey in ELTO's annual report.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

As noted in the response to **Recommendation 1**, the Assessment Review Board (ARB) intends to resolve 100% of its current and new caseload within the next four-year cycle ending March 31, 2021. The ARB has introduced new processes and Rules of Practice to achieve this goal.

The Ministry of the Attorney General (Ministry) has established a cross-cluster working group to develop and implement new performance measures. It has proposed that a consistent methodology for determining average cost per case be developed. As the working group, under the Ministry's leadership, develops new performance measures, Environment and Land Tribunals Ontario (ELTO) will endeavour to implement them in a timely manner and report on them in our Annual Report and Business Plans.

ELTO has begun a pilot project on client satisfaction surveys. ELTO intends to review the results of the pilot early in 2018 and make adjustments to the questions and approach as necessary with the intention of launching the survey on a wider scale in the new fiscal year. Survey results will be reported in ELTO's annual report.

For the 2018/19 Annual Report, the ARB will report on the number of appeals where the assessment was revised or the appeal was dismissed.

4.4 Actual Time Spent Reported by Board Members Neither Consistent Nor Analyzed

As of March 2017, the Review Board had a total of 21 members, including 12 full-time and nine part-time members, all of whom are independent adjudicators appointed by the Provincial Cabinet through an Order in Council. Full-time members are paid an annual salary, while part-time members are paid on a per diem basis. Monitoring the use of full-time board members is important given that full-time members are paid regardless of actual time spent in hearings.

The Review Board does not have a formal policy requiring its full-time members to record how they spent their work hours by individual appeals. However, board members do have a practice of completing timesheets, but do so inconsistently. For example, some members recorded the actual number of hours worked, while others recorded the number of hours scheduled. As a result, the Associate Chair cannot confirm how members spent their

work hours. In addition, the prepared timesheets do not require any oversight by the Associate Chair and no analysis is done to assess the effective use of members' time.

The Review Board maintains a schedule of upcoming planned hearing events that are allocated to board members based on their availability and experience. Other than conduct hearings, board members also prepare for hearings, travel for business, attend committee meetings, write decisions, attend training, and fulfil other administrative duties. However, the Review Board does not track the actual time spent by members on the hearing events or any of these other activities.

As is the Review Board's policy, hearings are conducted in the municipality where the appeal originated. The Review Board is unable to verify actual time spent at hearings held in various municipalities. Instead, it relies on the professionalism and honesty of its members.

In the absence of a formal policy and an effective time-reporting system, the Review Board cannot do the following:

- allocate members' time more effectively to address existing backlogs and new caseloads;
- assess whether members are spending their time efficiently and cost-effectively. For example, how full-time members spend their time when hearings are rescheduled or cancelled at the last minute was not monitored;
- evaluate whether their resources are allocated equitability and effectively. For example, assess whether some members have a much heavier or lighter workload than others;
- review and assess how efficiently part-time board members are being used compared with full-time members;
- determine the proper mix of full-time and part-time members to meet the yearly anticipated appeal caseload; and
- calculate the cost per hearing or appeal.

Figure 9 shows that, from 2013 to 2016, a total of approximately 2,750 hearings were cancelled, resulting in the cancellation of close to 3,130 planned hearing days. The possible reasons for these cancellations were adjournments, appeals were settled by the parties, and/or appeals were withdrawn by a party prior to a hearing; however, the Review Board did not record the reason for each cancellation.

For hearings that were cancelled one to two weeks prior to the hearing date, the Associate Chair of the Review Board would attempt to designate the previously assigned board member to another hearing event or a new hearing on another appeal so that the member's time was better utilized. However, if a hearing was cancelled three or fewer days prior to the hearing date, it was very difficult to reassign the full-time member to another hearing. Due to the short notice, another hearing

Figure 9: Selected Statistics on Cancelled Hearings, 2013–2016

Source of data: Assessment Review Board

Calendar Year	Total # of Hearings Cancelled (# of Hearing Days)	Total # of Hearings Cancelled 3 or Fewer Days Before Hearing*	% of the # of Hearings Cancelled 3 or Fewer Days Before Hearing
2013	601 (698 days)	330	55
2014	838 (988 days)	468	56
2015	575 (619 days)	326	57
2016	737 (822 days)	415	56
Total	**2,751 (3,127 days)**	**1,539**	**56**

* The equivalent number of hearing days that were cancelled three or fewer days before a hearing was not provided by the Review Board because of the significant amount of time that it would take to access this information.

could not be scheduled and all other hearings in that short time period would already be assigned. Consequently, the member would perform other duties, such as decision writing and research, and/or would be assigned to special projects by the Associate Chair.

Since there was no real time reporting, neither we nor the Review Board were able to confirm how members spent their time when hearings were cancelled a few days before hearings. We noted that, between 2013 and 2016, about 1,540 hearings, or 56% of the approximately 2,750 hearings cancelled, were cancelled three or fewer days before the hearing date (as discussed earlier, see **Figure 9**).

RECOMMENDATION 4

To help monitor and manage board members' time resources effectively, we recommend that the Assessment Review Board review and analyze actual time spent by individual board members on each appeal by key activities, such as hearing events, decision writing and mediations.

MINISTRY RESPONSE

The Ministry of the Attorney General will work with Environment and Land Tribunals Ontario to assess systems currently in place for governing member schedules and activities.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Environment and Land Tribunals Ontario and the Assessment Review Board recognize the importance of efficiency and making the best use of limited resources.

In the next fiscal year, we will implement processes and measures to better review and analyze actual time spent by all individual board members on key activities including hearing events, decision writing and mediation.

4.5 Review Board Does Not Conduct Quality Reviews of Members' Oral Decisions and Performance

4.5.1 Majority of Members' Decisions Receive No Peer Review

At the conclusion of an Assessment Review Board (Review Board) hearing, board members use their professional judgment, based on evidence heard, to render either an oral decision or issue a written decision at a later date. An oral decision is a verbal explanation of how the member came to the decision. A written decision also explains how a decision was made and provides support. Of all the board members' decisions from 2012 to 2016, approximately 80% were oral and about 20% were written. Unlike written decisions, oral decisions are not subject to peer quality assurance reviews.

As a best practice, an effective quality assurance review would check that the required legislation is followed and that the integrity, appropriateness, and consistency of decision-making are maintained. During the 2013–2016 cycle, either an experienced board member or Vice Chair reviewed each written decision to ensure it provided a full and complete explanation of the rationale for the decision. The reviewers checked that the evidence and submissions were fully considered by the board member and that the decision was supported by the relevant statutory provisions and applicable case law.

When an oral decision is made by a board member, a request for a written decision can be made either at the end of the hearing or up to 14 days after the hearing ends. We noted that the Review Board received very few requests, ranging from 17 to 40 each year between 2012 and 2016, for the members to provide written reasons to support their oral decisions rendered. **Figure 10** shows the number of oral and written decisions issued over the past five years.

If a party to an appeal disagrees with a Review Board decision, the party can request a review of the decision by the Review Board itself. If an error

Figure 10: Number of Oral and Written Decisions Issued, 2012–2016

Source of data: Assessment Review Board

Calendar Year	2012	2013	2014	2015	2016
# of oral decisions issued[1]	5,269	5,837	3,748	1,906	1,511
# of written decisions issued	1,239	974	642	751	334
Total[2]	**6,508**	**6,811**	**4,390**	**2,657**	**1,845**

1. Any parties involved in a hearing may request a written reason for an oral decision either at the time when an oral decision was rendered or within 14 days following the oral decision. The total number of requests for the members to write reasons to support their oral decisions was low: 23 in 2012; 40 in 2013; 39 in 2014; 32 in 2015; and 17 in 2016.
2. The decreasing trend was due to fewer formal hearings being conducted from 2012 to 2016.

in law is made, the party can appeal to the Courts for a judicial review of the decision. We noted that both the requests for reviews and the number of appeals submitted to the Courts of decisions were relatively small compared with the number of decisions issued by the Review Board. While the low number could mean that the parties are satisfied with the Review Board's decision, it could also mean that the parties may decide not to appeal further due to additional time and money that might require.

Members' Decisions Need to Be More Transparent

We found that the decision-making process by board members could be more transparent. Decisions are discretionary: members exercise their judgement based on the evidence submitted, and the majority of residential and non-residential appeals are decided by a single board member. As discussed above, approximately 80% of decisions were oral and therefore not subject to quality assurance review. As well, although any party to an appeal is entitled to have a court reporter transcribe a hearing, it had almost never happened in the period between 2012 and 2016. The party would have to pay for the transcription.

The Review Board also does not make an audio recording of the hearings. It cited that technical difficulties—for example, the difficulty of recording properly when many parties are involved—were the main concern. However, we noted that the Landlord and Tenant Review Board has provided audio recording since its inception in 1997. Any parties who are involved in an appeal with that board can request copies of a recorded hearing for a minimal fee. Effective August 1, 2017, the Criminal Injuries Compensation Board also records its oral hearings and pre-hearings using a digital recorder.

The benefits of audio recordings include preserving the hearing for internal reviews, following up on complaints, protecting members from allegations of misconduct, serving as a memory aid for members when writing their decisions, and aiding evaluations of members' performance.

We also noted that other jurisdictions, such as in Alberta, the legislation requires all Assessment Review Boards to keep a record of each hearing. The cities of Calgary and Edmonton, for example, meet this legislative requirement by audio recording all their hearings and offer to provide parties with an audio recording of their hearing for a minimal fee upon request.

RECOMMENDATION 5

To increase the transparency of the decision-making process and to help ensure that member decisions are supportable, impartial and are made in accordance with applicable legislation and regulations, we recommend that the Assessment Review Board conduct a cost/benefit analysis of providing audio-recording services to enable it to perform quality reviews on a random sample of oral decisions and to make audio-recording services available to the parties who are involved in an appeal.

MINISTRY RESPONSE

The Ministry of the Attorney General will review the cost-benefit analysis of providing audio recordings to all parties involved in an appeal.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Within the next fiscal year, Environment and Land Tribunals Ontario will undertake to complete a cost/benefit analysis of making audio recordings available for parties and for quality review.

4.6 Insufficient Documentation to Justify the Hiring of Board Members

The *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009* requires that the selection process for the appointment of members to an adjudicative tribunal be competitive and merit-based. The criteria to be applied in assessing candidates should include the following:

- experience, knowledge and training in the subject matter and legal issues dealt with by the tribunal;
- aptitude for impartial adjudication; and
- aptitude for applying alternative adjudicative practices and procedures as set out in the tribunal's rules.

Based on a sample of appointment files we reviewed, it was not always clear how the candidates for a particular appointment were evaluated and whether the candidates who performed the best in the recruitment competition were the candidates recommended for appointment.

For example, in 2013, the Review Board ran a recruitment competition and recommended six candidates for part-time Review Board members out of 21 candidates interviewed. Of the six candidates recommended, four were appointed. The Review Board did not have further information on why two of the candidates recommended were not appointed, and indicated to us that it was the Attorney General's decision as to whether or not to accept the recommendations from the Review Board. In 2014, because there were still vacant part-time positions, the Review Board re-interviewed three of the 17 unsuccessful candidates from the 2013 competition using a different panel. No documentation could be located to indicate why these candidates were selected for an interview as opposed to other unsuccessful candidates from the 2013 competition.

For the three candidates selected to be re-interviewed, the Review Board's correspondence to the Ministry of the Attorney General indicated that the candidates had placed highly in the 2013 competition. However, the scoring documents completed by the interview panel members in 2013 indicated that two of the three selected candidates did not receive high scores in the 2013 competition. In addition, there was no documentation on file to show any comments or scoring from either of the interview panel members when the three candidates were re-interviewed in 2014. All three candidates were subsequently appointed to the Review Board.

We found similar issues when reviewing files on member selection and appointments at the Ontario Municipal Board, which is discussed in **Section 5.7**.

RECOMMENDATION 6

To ensure the appointment process of board members under the *Adjudicative Tribunals Accountability, Governance and Appointment Act, 2009* is adhered to, we recommend that the Assessment Review Board, together with Environment and Land Tribunals Ontario, thoroughly document its justification of recommended and selected candidates.

MINISTRY RESPONSE

The Ministry of the Attorney General will monitor and track improvements to processes for documenting the selection of member candidates for recommendation.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Environment and Land Tribunals Ontario (ELTO) and the Assessment Review Board are committed to a merit-based approach to the selection of members recommended for appointment by the Executive Chair.

Within the next six months, ELTO will review its processes for documenting the selection of member candidates for recommendation and implement improvements to ensure complete written documents are created and stored.

5.0 Detailed Audit Observations—Ontario Municipal Board

The key mandate of the Ontario Municipal Board (Municipal Board) is to effectively and efficiently resolve disputes related to land-use planning.

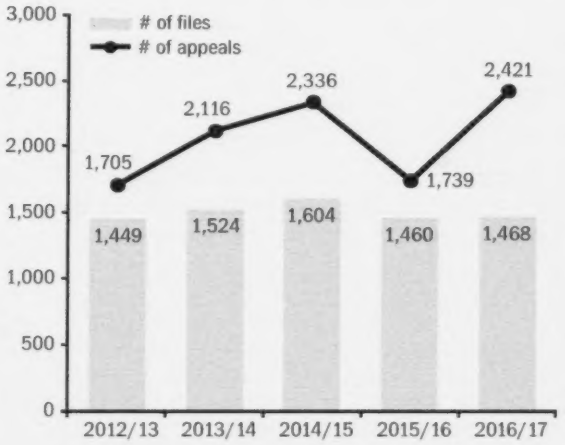
Between 2012/13 and 2016/17, the Municipal Board received approximately 1,500 files each year—with a range between about 1,700 and 2,400 appeals (See **Figure 11**). The Municipal Board held, on average, about 1,700 hearings and issued approximately 1,100 decisions each year.

If a party to an appeal disagrees with a Municipal Board decision, it can request a review of the decision by the Municipal Board itself. If an error in law is made, the party can appeal to the Courts for a judicial review of the decision. We noted that both the requests for reviews (a total of 166 requests between 2013 and 2016) and the number of appeals of decisions submitted to the Courts (a total of 25 appeals between 2013 and 2016) were relatively small compared with the number of decisions issued by the Municipal Board.

Our audit identified several operational issues that the Municipal Board should address before transitioning to the new Local Planning Appeal Tribunal (discussed in **Section 2.4.4**) to help ensure it will function efficiently and cost-effectively in resolving land-use related disputes.

Figure 11: Number of Files Opened and Appeals* Received by Ontario Municipal Board (Municipal Board), 2012/13–2016/17

Source of data: Ontario Municipal Board



* One file may contain multiple appeals. For example, a proposed development for a property may include a municipal Official Plan amendment, a zoning bylaw amendment and a draft subdivision plan—each of these is called a "planning instrument." In this case, each of these planning instruments can be separately appealed by multiple parties, but they are combined and treated as one file by the Municipal Board because all these appeals are related to the one property. Municipal Board hearings and other hearing events (such as mediation) are scheduled based on an individual property or individual "file."

5.1 Municipal Board Operations Need Improvement Before Transforming to New Tribunal

Our review of the operations of the Municipal Board identified areas that needed to be improved, in particular:

- The Municipal Board informed us that cases were assigned to board members based on factors such as members' background, their experience and workloads. However, the Municipal Board had no formal policy in place and, in the majority of cases, only one member was assigned to hearings. One-member decisions could be subjective. The Municipal

Board informed us that it was unable to assign a multi-member panel for most cases due to lack of member resources. Having multiple-member panels will minimize the risk of bias from a one-member panel.

- Similar to the Review Board, the Municipal Board does not provide audio-recording services at the hearings for subsequent internal and/or external review, when needed. **Section 4.5** discussed the benefits in providing audio recordings. Technical difficulties were also cited by the Municipal Board to explain why it did not provide such services to participants involved in an appeal.
- The Municipal Board does not conduct formal client satisfaction surveys of hearing participants. We noted that, for example, the Municipal Government Board in Alberta conducts formal client satisfaction surveys of hearing participants annually. It asked participants to rate areas, such as whether the hearing process was easy to understand, whether the appeal process was fair, unbiased and impartial, whether they were satisfied that the written decisions were issued in a timely manner, and their overall satisfaction.
- The proposed legislation (as mentioned in **Section 2.4.4**) is intended to improve efficiency and accessibility to Ontarians by making the hearing process faster, fairer and less adversarial. Our follow-up on complaints from the public indicated that the proposed legislation would help address some concerns of complainants. However, improvements are required in hiring (discussed in **Section 5.7**) and training of board members. Our follow-up review indicated that complaints came mainly from municipalities and citizen groups expressing concerns that the Municipal Board's decisions lacked objective and clear rationale. In addition, citizen groups complained about a perceived lack of a level playing field in their disputes with developers.

Concerns Expressed by Municipalities

One major concern expressed by municipalities was that the Municipal Board at times stepped outside of its jurisdiction to arbitrarily overturn sections of their Official Plans without proper interpretations of the *Planning Act*.

While we acknowledge the concerns expressed by municipalities, our audit was not to question the merits of the decisions made by individual board members. Our audit's intent was to identify areas in which the Municipal Board could improve how it operates to help it transition to the new Appeal Tribunal as discussed below.

Case 1: Town of Richmond Hill

The Town of Richmond Hill (Richmond Hill) in the development of its Official Plan policies related to parkland dedication utilized the precise wording of Section 42 of the *Planning Act*, which permitted one hectare of parkland per 300 units of development, or the cash equivalent.

In 2012, a group of developers appealed Richmond Hill's Official Plan policy of the "one hectare per 300 units" requirement to the Municipal Board. One board member, after conducting formal hearings from November 2013 to May 2014, issued a decision in January 2015 against Richmond Hill by imposing a 25% cap on the application of what is explicitly permitted by the *Planning Act*. According to Richmond Hill, a cap of 25% of the parkland permitted under the *Planning Act* also meant that Richmond Hill would receive an estimated $60 million less from the developers at the time, which would severely constrain it from acquiring additional green space in the town to serve its growing community. Following the ruling, Richmond Hill requested the Municipal Board to reconsider its decision, which it did but then re-affirmed its decision without granting a new hearing. Richmond Hill, joined by four other municipalities (City of Markham, Town of Oakville, City of Vaughan and City of Mississauga), then appealed the Municipal Board decision to the Divisional Court. The

Divisional Court ruled in 2016 that the Municipal Board erred in law and did not have jurisdiction to modify Richmond Hill's Official Plan policy that was based upon the *Planning Act*. The developers appealed the Divisional Court's decision and were granted leave to be heard in the Court of Appeal. The appeal was under consideration by the Court at the completion of our audit.

Based on Case 1, we observed that:

- The Divisional Court ruling that the Municipal Board had erred in law indicated that training for the Municipal Board's members might require strengthening to ensure board members do not render a decision that is outside the authority of the Municipal Board.
- The proposed legislation change to the Municipal Board would not address the municipal concern. Specifically, appeals similar to the Richmond Hill case can still be heard and decided by the new Local Planning Appeal Tribunal (Appeal Tribunal) because Richmond Hill is designated as a lower-tier municipality of the Regional Municipality of York.

Case 2: Region of Waterloo

The Region of Waterloo (Waterloo), after five years of extensive public consultation, approved an Official Plan (Plan) in 2009. The Plan was established based on the Provincial Growth Plan to constrain sprawl and encourage transit use. The Plan, with a 2031 planning horizon, allowed 85 hectares of farmland on the edge of Waterloo for development expansion. The then Ministry of Municipal Affairs and Housing approved Waterloo's Official Plan in 2010.

More than 20 developers filed appeals in 2010 against Waterloo's Official Plan. The majority of them challenged the amount of land for development. Instead of 85 hectares of farmland, the appellants argued that 1,053 hectares, based on an older provincial guideline, should be available for development. In its decision rendered in January 2013, a two-member panel of the Municipal Board supported the appellants' position and declared 1,053 hectares of farmland could be used for development. Following the ruling, Waterloo requested the Municipal Board to reconsider its decision, which it did but then re-affirmed its decision without granting a new hearing.

In 2013 and 2014, Waterloo undertook two proceedings in Divisional Court. In the first court proceeding, Waterloo asserted the Municipal Board erred in its interpretation of the Provincial Growth Plan for the Golden Horseshoe region in southern Ontario. In the second court proceeding, Waterloo asserted that there was a reasonable apprehension of bias in the hearing that resulted in the January 2013 ruling by the Municipal Board. Apprehension of bias is a legal standard for disqualifying tribunal decision-makers where there is bias or the appearance or perception of bias. The two Municipal Board members assigned to conduct the hearings also attended a training session provided by a consultant who also was an expert witness representing some of the appellants at the same time that the appeal was pending before the Municipal Board.

In order to avoid additional costs for court proceedings and reduce the uncertainty of the already prolonged case, Waterloo entered settlement discussions with the appellants and reached a settlement agreement in July 2015, six years after Waterloo's Official Plan was approved by the region's council. The settlement decision was that 255 hectares of land could be used for development as of 2015 and possibly another 198 hectares of land may be added for a total of 453 hectares, which was less than half the area (1,053 hectares) requested by the appellants. Waterloo withdrew its court proceedings without any of the allegations being adjudicated in court.

The Region of Waterloo spent a total of $1.7 million on legal fees and expert witnesses for the appeal. This cost would have been avoidable if appeals to municipal Official Plans, which were approved by the provincial government, were not appealable.

We also noted that the Region of Halton raised a similar concern that it spent a considerable amount of time and money to defend its Official Plan that was already approved by its elected regional councils and the then Ministry of Municipal Affairs and Housing. It informed us that it spent $3.5 million on external legal fees and expert witnesses to defend its Official Plan throughout the appeal process between 2011 and 2016 for over 40 appeal cases.

Similarly, the Region of York also informed us that it spent approximately $4 million on external legal fees and expert witnesses to defend its Official Plan through the appeals process between 2010 and 2014 for over 62 appeals.

Based on Case 2, we observed that:

- Under the proposed legislation change to the Municipal Board, appeals similar to the Waterloo case would not be appealable at the new Appeal Tribunal because, unlike the Town of Richmond Hill, the Region of Waterloo is designated as an upper-tier municipality. This also would apply to the Region of Halton and the Region of York.
- While the case was settled between the parties due to concerns of costs and uncertainty, it highlights the risk of apprehension or perception of bias by board members that could undermine the credibility of the Municipal Board.

Concerns Expressed by Citizens

In the City of Toronto, the Municipal Board approved a 10-storey building in early 2014. The hearing lasted three days and was heard by one Municipal Board member. The developer had filed an appeal after the city council did not make a decision on a proposed amendment to rezone the land within the statutory timeline.

For the hearing, the developer hired an expert planning witness to provide evidence that the development complied with the *Planning Act* and associated planning principles. The neighbouring residents did not have an expert witness to present their case and evidence on their behalf. The residents provided their own statements and evidence.

The board member approved the 10-storey project (the original project was 11 storeys) against the concerns of the neighbouring residents. The member's decision stated that "the concerns of the neighbours were heartfelt and sincere," adding that the project would have an effect on their properties in terms of increased traffic and shadows due to the height of the new development. However, the member stated that the site plan represented an attractive addition to the area and should be approved.

A common complaint against the Municipal Board is that developers have an unfair advantage by having expert witnesses to ensure their side is more convincingly presented than the opposing side.

Based on this case, we observed that:

- Because the proposed legislation would provide free legal and other support to citizens in appeals before the new Appeal Tribunal, the legal support would be giving the citizens a level playing field against developers or municipalities in appeals before the Municipal Board.

RECOMMENDATION 7

To help strengthen its operations and increase the transparency of the decision-making process, we recommend that the Ontario Municipal Board:

- establish a formal policy to guide the assignment of board members to conduct formal hearings based on factors such as members' background, their experience and workload;
- conduct cost/benefit analysis of providing audio-recording services to the parties who are involved in an appeal;
- conduct formal participant satisfaction surveys in a timely manner to assess areas, such as: whether the hearing process was easy to understand; whether the appeal process was fair, unbiased and impartial;

whether the written decisions were issued in a timely manner; and participants' overall satisfaction; and

- provide additional training to assist board members in making decisions that are within their authority and to avoid apprehension or perception of bias in all cases.

MINISTRY RESPONSE

The Ministry of the Attorney General (Ministry) will monitor and track any new policies to guide the assignment of members to hearings.

The Ministry will review the cost-benefit analysis of providing audio recordings to all parties involved in an appeal.

The Ministry will work with Environment and Land Tribunals Ontario (ELTO) to assess its business case for new technology. There is a long-term Ministry technology plan in place to assist all tribunals in modernizing their operations.

The Ministry will monitor the results of the client satisfaction survey in ELTO's annual report.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Within the next six months, Environment and Land Tribunals Ontario (ELTO) and the Ontario Municipal Board (OMB) will establish a formal policy to guide the assignment of members to hearings.

Within the next fiscal year, ELTO will undertake to complete a cost/benefit analysis of audio recordings for parties.

In June 2017, ELTO and the OMB undertook a pilot project to begin a client satisfaction survey on decisions issued by the OMB. The results of this pilot were reviewed, and a revised survey with questions encompassing all ELTO boards and services was prepared and is currently being tested. ELTO intends to review the results of this pilot early in 2018 and make adjustments to the questions and approach as necessary with the intention of launching the survey on a wider scale in the new fiscal year. Survey results will be reported in ELTO's annual report.

The OMB has concerns with the reference in the audit report to three arbitrarily selected cases, one of which is still before the courts for consideration. We are concerned that this creates the impression that the conduct and the substantive outcomes in these cases were faulty. The review of substantive outcomes and hearing procedures of adjudicative tribunals rests with the courts, where proper legal tests can be applied or where the consideration of evidence can be reviewed.

The OMB regularly provides professional development to adjudicators that addresses all of these areas. The OMB is in compliance with all ethics training responsibilities under the *Adjudicative Tribunals Accountability, Governance and Appointments Act, 2009*. The Auditor, having touched upon some unsubstantiated allegations of a perception of bias in a single case, has not identified any tangible basis for concern in this area.

With respect to whether decisions are made within its authority, the Board considers that the court is the appropriate body to identify errors, rather than a value-for-money audit.

The OMB will continue to provide board member training in areas including ethics and the Board's mandate, consistent with its core values and legal requirements.

5.2 Scheduling Target for Minor Variance Appeals Not Met

Minor variance appeals challenge decisions made by a municipal Committee of Adjustment, which deals with homeowners' requests for approval on variances against the municipal property zoning bylaws. Compared with other types of land-use appeals, they are simpler and a case hearing usually takes no longer than a day.

In 2016/17, the Ontario Municipal Board (Municipal Board) scheduled 1,349 new land-use cases for hearings, of which 421 or 30% were minor variances. The other 928 or 70% of the cases were more complicated land-use appeal cases and they are discussed in **Section 5.3**.

The Municipal Board has established two performance measures, which are reported publicly in its annual report:

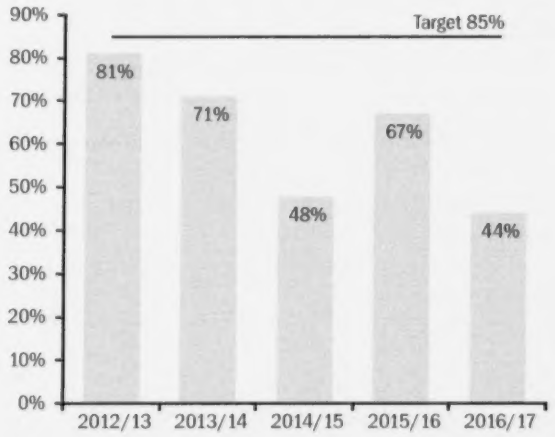
- It has set a target of issuing 85% of decisions within 60 days after the end of a hearing. This performance measure is used to measure against all types of appeals—both minor variance and complex cases. This performance measure is discussed in **Section 5.4**.
- It has set a target to schedule 85% of minor variance cases for a first hearing within 120 days of receiving a complete appeals package. We noted that the Municipal Board has been struggling to meet this performance measure as the trend shown in **Figure 12** shows. In its fiscal year 2016/17 ending March 31, only 44%, or 186 of 421 minor variance cases scheduled, met the established timeline. This was a decrease from 81%, or 281 of 346 cases, in 2012/13.

During our audit, we asked the Municipal Board to provide a list of the 235 cases from 2016/17—the 421 scheduled cases minus the 186 cases that were scheduled within 120 days—that were not scheduled within 120 days to allow us to investigate the reason for the delay. However, the Municipal Board could not provide such a list, stating that its information system does not have the capability to produce the report without using excessive staff resources. Without the list, we were unable to determine how long the 235 cases have been outstanding and the details of these cases.

We also questioned how the Municipal Board was able to monitor and manage these outstanding appeals without generating such a list. Based on our discussions with board members and administrative staff who schedule hearings, the main reason provided for the backlog was lack of board

Figure 12: Percentage of Minor Variance Appeals Scheduled for a First Hearing Within 120 Days, 2012/13–2016/17

Source of data: Ontario Municipal Board



members' time to conduct the hearings. The Municipal Board also stated that vacancies of significant board members were a contributing factor in not meeting its performance target. During the 2016/17 fiscal year, the appointment term ended for a few experienced full-time members, Vice Chairs and the Associate Chair. The Municipal Board explained that these positions have been filled, but it takes time to train new board members before they can take on more cases.

An internal report prepared by the Municipal Board shows the turnaround time—from case received to decision issued or case closed—for minor variance cases, but this information was not used to assess its performance or for public reporting. In 2016/17, according to the internal report, the average number of days of turnaround time for minor variances was, on average, 227 days. In the same year, of the 259 minor variance cases closed,

- 114 of them were resolved within 180 days or less; and
- 145 of cases took longer than 180 days to resolve.

The 180-day benchmark was based on the two performance targets set by the Municipal Board—

120 days for a hearing to be scheduled and another 60 days for the decision to be rendered upon completion of a hearing. In 2016/17, the average number of days of turnaround time was 227 days, or 47 days above the 180-day benchmark.

As a result of long turnaround times, homeowners were not receiving a decision in a timely manner and their projects may be delayed. For example, without the minor variance approval by the municipality, homeowners are not able to obtain a building permit from the municipality to proceed with their renovation projects.

Toronto First Municipality to Create Local Appeal Board

Since legislation passed in 2006 amending the *Planning Act*, the City of Toronto has become the first municipality in Ontario to create an independent Local Appeal Board.

Starting in May 2017, property owners who want to appeal the city's Committee of Adjustment decisions about minor variance and consent-to-sever-land applications, now go to this board instead of the Municipal Board. That means the volume of minor variance cases to be heard by the Municipal Board could start to decline and that could help alleviate the existing backlogs. However, at the time of our audit, the Municipal Board was uncertain on the extent that this legislation change will reduce its caseload of minor variance cases or whether it will help reduce any backlogs in the near future.

RECOMMENDATION 8

To have more timely resolution of minor variance appeals, we recommend that the Ontario Municipal Board:

- reduce the delay in hearings of these appeals; and
- track, monitor and analyze the reason for the long turnaround time in resolving minor variance appeals.

MINISTRY RESPONSE

Bill 139 and related regulations, if passed, will set out specific timelines for the resolution of the matters brought before the new Local Planning Appeal Tribunal replacing the Ontario Municipal Board.

The Ministry of the Attorney General will work with Environment and Land Tribunals Ontario to assess its business case for new technology. There is a long-term ministry technology plan in place to assist all tribunals in modernizing their operations.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Bill 139 and related regulations are expected to set out specific timelines for the resolution of the matters brought before the new Local Planning Appeal Tribunal (replacing the Ontario Municipal Board). We will endeavour to measure and report on compliance with the legislated timelines in our Annual Report and Business Plans.

Environment and Land Tribunals Ontario (ELTO) and the new Appeal Tribunal will be implementing new processes and Rules of Practice to support the timely resolution of appeals.

ELTO will be seeking approval and funding from the Ministry of the Attorney General to develop and implement new technology to assist with the timely resolution of appeals and that will provide better data allowing for improved tracking and analysis.

5.3 Municipal Board Not Tracking Why Some Complex Appeals Scheduled Late, Took Years to Resolve

The majority of complex appeals include appeals of a municipality's Official Plans, Official Plan amendments, zoning bylaws and zoning bylaws

amendments passed by municipalities. Complex appeals represented approximately 70% of the Ontario Municipal Board's (Municipal Board) total caseload in 2016/17.

For these complex appeals, the Municipal Board has set a published performance target that 85% of cases are to be scheduled for a first hearing within 180 days of the receipt of a complete appeal package. We noted that:

- in 2016/17, the Municipal Board scheduled 74%, or 686 of 928 cases, within 180 days; and
- in 2012/13, the Municipal Board scheduled 83%, or 720 of 869 cases, within the target.

See **Figure 13** for the trend.

Similar to our review of the minor variance cases, the Municipal Board could not generate a list of the 242 cases in 2016/17 (out of 928 cases received) that were not scheduled for a hearing within the 180-day target. This would have enabled us to investigate the reasons for the delays. As discussed in **Section 5.2** regarding minor variances, the Municipal Board explained that its information system does not have the capability to produce such a report without requiring excessive staff resources to prepare.

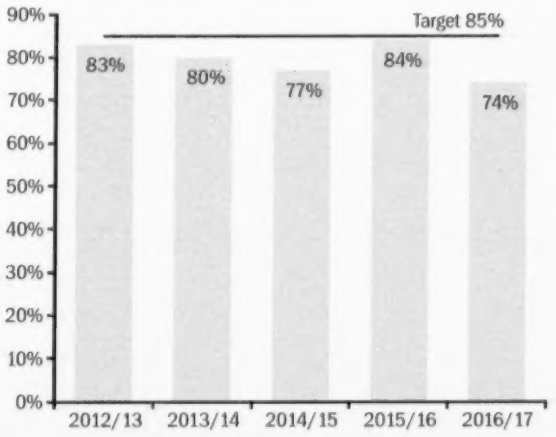
In addition, we noted that the number of days taken from case received to case closed—that is, both the decisions and orders are issued—ranged, on average, between ten months to almost seven years for cases that were closed in 2015/16. **Figure 14** shows a breakdown of the cases. We requested a list of complex appeals that took longer than two years to close but, again, the Municipal Board was unable to provide it.

We noted the following reasons could have contributed to the long duration; however, the Municipal Board could not provide details to confirm the extent of each cause:

- lack of board members' time available to conduct hearings; the vacancies of significant members in recent years; and the training of new members as discussed in **Section 5.2**;

Figure 13: Percentage of Cases (Other than Minor Variances) Scheduled for a First Hearing Within 180 Days, 2012/13–2016/17

Source of data: Ontario Municipal Board



- complex cases often have multiple hearing events. Each of the hearing events typically ranged, on average, four to six months apart. In 2016/17, about 30% of the hearing events were pre-hearings, meaning that at least 30% of the appeals have subsequent hearings after the first pre-hearing. Other types of hearings are motion hearings and full hearings. Because the Municipal Board does not monitor the average number of hearing events per appeal on a regular basis, it could not show us the number of hearing events per case each year; and
- appellants might take from several months to several years to fulfil the conditions imposed by board members as part of their decisions.

The Municipal Board determines a case is "closed" when it has issued both a decision and an order, or just an order. In some cases, a board member will issue a decision and order at the same time. However, in many other cases, a member's decision will place certain conditions on the appellant who is required to fulfil them before the board member will issue an order, thereby closing the appeal case. Examples of such conditions include completing

Figure 14: Average Number of Days Taken to Close Files Other than Minor Variances, 2015/16
Source of data: Ontario Municipal Board

Appeal Type	# of Files Closed	Average # of Days Taken (Range)
Official Plan Amendments	116	570–1,304
Zoning Bylaws	256	406–860
Subdivision – Section 51	49	308–2,519
Consents to Sever Land	217	347–493
Site Decision Plan – Section 41 (12)	18	692
Total	**656**	**From 10 months to almost 7 years**

specific site work or updating certain types of documents. However, the Municipal Board could not distinguish the length of time the appellants took to fulfil the condition because the time taken is not within the control of the Municipal Board.

Without a detailed reporting on the timeliness on case resolutions, the Municipal Board would not have sufficient information to help it to expedite case hearings and reduce its backlogs. The Municipal Board could, for example, track the duration from when an appeal is received to when a decision is rendered, factors that the Municipal Board can control and report on. This average duration for a case could also be tracked by appeal type, such as Official Plan amendments or zoning bylaws, to provide information to the Municipal Board and/or the public on how long these cases take to be resolved by the Municipal Board.

Based on our discussions with a developer group, delays in managing appeal cases by the Municipal Board prolonged the time of their developments and increased the costs of their operations. In some cases, additional costs incurred by developers could be passed on to buyers of houses or condominiums.

In May 2017, the government introduced Bill 139, as discussed in **Section 2.4.4**. If passed, the bill would limit the scope of certain appeals that are currently heard by the Municipal Board under the *Planning Act* and will repeal the *Ontario Municipal Board Act*. The Municipal Board would become known as the Local Planning Appeal Tribunal.

However, until the pending legislation goes into effect, the Municipal Board does not know how the bill might impact the number of appeals to be filed at the Municipal Board. Anticipating future demand is important to plan for sufficient resources to handle the workload. Both the number and complexity of cases will impact the future workload.

RECOMMENDATION 9

To better ensure timely resolution of complex appeals, we recommend that the Ontario Municipal Board:

- track, monitor, and analyze the reason for any undue delays in resolving complex appeals and distinguish the duration of case resolutions that is within or without its control;
- anticipate future demand to determine future resource requirements; and
- streamline the process to reduce the number of outstanding complex appeals.

MINISTRY RESPONSE

Bill 139 and related regulations, if passed, will set out specific timelines for the resolution of the matters brought before the new Local Planning Appeal Tribunal replacing the Ontario Municipal Board.

The Ministry of the Attorney General will work with Environment and Land Tribunals Ontario to assess its business case for new technology. There is a long-term ministry technology plan in place to assist all tribunals in modernizing their operations.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Bill 139 and related regulations are expected to set out specific timelines for the resolution of the matters brought before the new Local Planning Appeal Tribunal (replacing the Ontario Municipal Board). We will endeavour to measure and report on compliance with the legislated timelines in our Annual Report and Business Plans.

Environment and Land Tribunals Ontario (ELTO) and the new Appeal Tribunal will be implementing new processes and Rules of Practice to support the timely resolution of appeals. We will be analyzing the expected future demand to model anticipated resources required to ensure the resolution of appeals within the legislated timelines.

ELTO will be seeking approval and funding from the Ministry of the Attorney General to develop and implement new technology to assist with the timely resolution of appeals and that will provide better data allowing for improved tracking and analysis.

5.4 Despite 80% of Decisions Issued Within 60 Days, Others Took Almost a Year

The Ontario Municipal Board (Municipal Board) publicly reports on the timeliness in issuing a decision. The performance target is 85% of decisions will be issued within 60 days after the end of a hearing for all types of appeals.

We noted that the Municipal Board was close in meeting its target, but its actual performance has slightly decreased from 82% in 2012/13 to 80% in 2016/17. See **Figure 15** for the trend.

We also noted that, in 2016/17, of the 1,087 decisions issued, 218 of them took more than 60 days. The breakdown of the 218 cases is as follows:

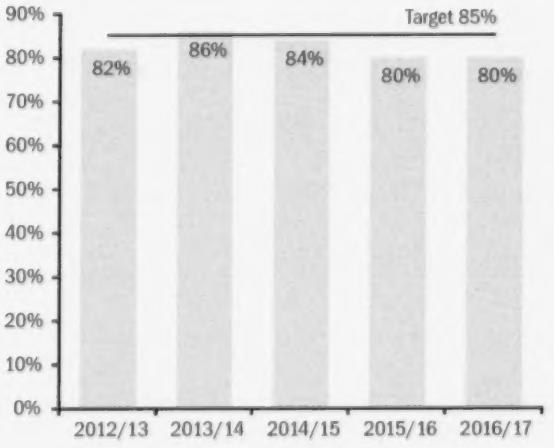
- 135 of them took between 61 days and 120 days;
- 45 took between 121 days and 180 days; and
- 38 took between 181 days and 365 days.

The Municipal Board prepares reports every two months on all decisions that were issued 60 days or longer after completion of a hearing. Based on the annual summary of the bi-monthly reports for each of the fiscal years between 2012/13 and 2016/17, we noted that six of the 27 board members accounted for about 40% of the decisions that took longer than 60 days to be issued. The Municipal Board indicated that the main reason for the delays was that some members did not have sufficient dedicated writing time after hearings. However, we also noted that three of these six members were granted significant dedicated writing time: 95 days, 91 days and 76 days respectively from 2012/13 to 2016/17. By comparison, the majority of the other 21 members were granted on average dedicated writing time of 50 or fewer days over the same time period. Therefore, it appeared that the lack of dedicated writing time was not the major reason for the three board members who were not able to issue decisions within the established target.

Without timely written decisions issued by the Municipal Board, the appellants, such as home owners or developers, would be delayed in applying for building permits to proceed with their projects.

Figure 15: Percentage of Decisions Issued Within 60 Days of the End of a Hearing, 2012/13–2016/17

Source of data: Ontario Municipal Board



RECOMMENDATION 10

To better ensure written decisions are issued to relevant parties in a timely manner, we recommend that the Ontario Municipal Board investigate cases when members consistently took longer than the target times to issue a decision and take necessary actions to reduce delays.

MINISTRY RESPONSE

Bill 139 and related regulations, if passed, will set out specific timelines for the resolution of the matters brought before the new Local Planning Appeal Tribunal replacing the Ontario Municipal Board.

The Ministry of the Attorney General will monitor and track Environment and Land Tribunal Ontario's implementation of any new regulations under Bill 139.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Environment and Land Tribunals Ontario and the Ontario Municipal Board (OMB) presented to the Auditors its plan for improving the member performance review process. ELTO and the OMB have developed and implemented reports to track outstanding decisions and performance times for drafting and issuing decisions. Analysis and discussion of these reports will be part of the enhanced performance reviews.

The improved process will be implemented with the transition to the Bill 139 provisions for decision-making timelines.

5.5 Target Setting and Evaluation of Mediation Efforts Needed

The Ontario Municipal Board's (Municipal Board) 2015/16 annual report stated that the Municipal Board was continuing to develop its capacity for mediation of appeals where alternative dispute resolution can be effective. The intent of the Municipal Board's mediation program is to provide timely and cost-effective resolutions of complex land-use planning disputes and to avoid the need for lengthy hearings.

While the intent of the mediation program was a good start, the Municipal Board had not yet set a target, nor did it measure the success or outcomes of the program. The Municipal Board also stated that it had been encouraging mediation of appeals by the parties but was unable to demonstrate the success of its efforts. For the complex appeals where a hearing can last several days, the use of mediation to settle the disputes is even more critical.

Between 2012/13 and 2016/17, the Municipal Board held between 69 and 92 mediation events each year, as shown in **Figure 16**. But the number of mediation events held as a percentage of appeal files opened was low and remained relatively stable at 5% and 6% each year—despite the Municipal Board's intention to increase the use of mediation.

We noted that the Human Rights Tribunal of Ontario reports annually on the number of mediations held and the percentage of cases settled at mediation, but these measures were not used by the Municipal Board to determine the performance of its mediation program.

RECOMMENDATION 11

To minimize the number of formal hearings required to settle appeals, we recommend that the Ontario Municipal Board:

- set a target percentage of the number of mediations to be held for complex cases each year; and
- report annually on the number of mediation events held and the percentage of cases settled as a result of mediation.

MINISTRY RESPONSE

The Ministry of the Attorney General will support Environment and Land Tribunals Ontario in implementing performance measures related to mediation.

Figure 16: Number of Mediations as a Percentage of the Number of Appeal Files Opened, Ontario Municipal Board, 2012/13–2016/17

Source of data: Ontario Municipal Board

Fiscal Year	# of Mediation Events*	# of Appeal Files Opened	# of Mediation as a % of Appeal Files Opened
2012/13	86	1,524	6
2013/14	69	1,449	5
2014/15	92	1,604	6
2015/16	69	1,460	5
2016/17	89	1,468	6

* A mediation event may have a duration of more than one day and may include multiple files.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Through mediation, the Ontario Municipal Board (OMB) has achieved considerable success in settling complex matters and removing the need for contested hearing time. The OMB has also created a culture wherein key stakeholders—municipal councils, development interests, and community groups—accept and request mediation because they see its tangible benefits. From the OMB's perspective, it is doubtful without that success, that mediation would have been promoted to the degree it was and is in the recently completed Provincial Review of the OMB or the recently launched Toronto Local Appeal Body.

In our experience, for complex-matter mediations, approximately five hearing days are typically removed from the calendar for each day invested in successful mediation. The OMB understands the importance of quantitative data to support analysis, and to that end it is already refining the measures it uses to numerically track and demonstrate use of mediation and results achieved. These measures, combined with the continued use of its mediation assessment tool—a practice of identifying suitable cases for full or partial mediation—respond positively to the recommendation. A step to establish an annual target percentage for mediating complex cases must appropriately take account of both the complexity of those cases and the fact that mediation is a voluntary process.

5.6 Actual Time Spent Reported by Board Members Not Complete or Analyzed

Board members are a key resource to the Ontario Municipal Board (Municipal Board) because they conduct hearings and render decisions on appeals. However, the Municipal Board's Associate Chair does not know how its 20 full-time members spent their work hours and whether they were managing their caseloads cost-effectively and efficiently. Also, the Municipal Board has not done any analysis to determine whether the number of board members was sufficient to eliminate the existing backlogs and handle future demand.

The existing backlogs were those cases not meeting the Municipal Board's performance targets. As discussed in **Section 5.2** and **Section 5.3**, during 2016/17, only 44% of the minor variance cases were scheduled for a hearing within 120 days and 74% of complex cases were scheduled for a first hearing within 180 days of the receipt of a complete appeal package. In both cases, the target is 85%. The Municipal Board indicated that the

main reasons for the backlogs were lack of board member time to conduct hearings, along with several vacancies of experienced board members at the time. However, without an effective time recording system, it will be difficult for the Municipal Board to manage members' time to handle its caseload and forecast the additional time requirements.

No Formal Policy Requires Members to Account for Time

The Municipal Board has neither a formal policy nor a practice requiring members to record how they spent their time, by individual appeals, on a daily basis, such as whether the members were preparing or conducting hearing events, writing decisions, overseeing telephone conference calls, travelling for business purposes, attending training, and performing other administrative duties. The Municipal Board relies on members' professionalism and honesty to best use their time. In 2012, the Executive Chair at Environment and Land Tribunals Ontario implemented a time reporting system at the Municipal Board. However, it was abandoned in 2014 when the Executive Chair left the organization.

In the absence of a mandatory time reporting system to record members' time on a daily basis, the Municipal Board did record, on a monthly basis, the number of planned hearing days by member based on the hearing events scheduled. Members were also required to report monthly planned vacation time, approved dedicated decision-writing time, planned absences and planned time for training. However, members are not required to report the actual time spent at a hearing event, although we noted that some members did report their actual number of hearing days when the hearing took less time than the number of days scheduled.

The Municipal Board also records the number of scheduled hearings and scheduled hearing days by member prior to the start of each hearing event. Unlike the monthly scheduling report mentioned above, the members are required to report whether the hearing event occurred and record actual hearing length upon the completion of the hearing events. However, we found that while some members recorded the actual number of hearing days spent on a hearing event, others did not. We noted that in 2016/17 seven of the 20 full-time members did not record the actual hearing time as required.

For the members who reported actual hearing time over the five fiscal years between 2012/13 and 2016/17, the actual number of hearing days was about 9,290 days, compared with scheduled hearing days of about 10,650. Therefore, nearly 15% fewer days were worked by members at hearings than scheduled. Without a time reporting system, we were unable to determine how the members spent their time when not conducting hearings.

Based on our review of board member activity reports between fiscal year 2012/13 and 2015/16, we noted the actual number of hearings days reported by full-time members varied significantly. The actual number of hearing days per member was, on average, 81 days a year. We noted one member (Member A) worked as few as 43 days to 50 days at hearings per year, compared with another member (Member B) who worked as many as 105 to 140 hearing days in a year. **Figure 17** shows that Member B worked about double the number of hearing days conducted by Member A between 2012/13 and 2015/16.

The Review Board explained that the large differences of the number of hearing days conducted by members could be due to various factors, such as the timing of board members' appointments, location of hearings as some might require more travel time than others, health issues of board members and some members might be assigned to other duties. We were also told that members would spend time on writing decisions if the hearings lasted fewer days than the days scheduled. However, with the absence of a time tracking system, the Municipal Board cannot demonstrate how the members are actually spending their time on a daily or per appeal basis.

Figure 17: Comparison of the High and Low of the Actual Number of Hearing Days per Member, Ontario Municipal Board, 2012/13–2015/16

Source of data: Ontario Municipal Board

Fiscal Year	# of Actual Hearing Days Reported by Member A	# of Actual Hearing Days Reported by Member B	% Difference
2012/13	43	142	230
2013/14	58	119	105
2014/15	50	114	128
2015/16	47	105	123

RECOMMENDATION 12

To help ensure members' time resources are better utilized, we recommend that the Ontario Municipal Board review and analyze actual time spent by individual board members on each appeal by key activities, such as hearing events, decision writing and mediations.

MINISTRY RESPONSE

The Ministry of the Attorney General will support Environment and Land Tribunals Ontario, as needed, in reviewing and analyzing the actual time spent by individual board members on hearing events, decision writing and mediations.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Environment and Land Tribunals Ontario and the Ontario Municipal Board recognize the importance of efficiency and making the best use of limited resources.

In the next fiscal year, we will implement processes and measures to better review and analyze actual time spent by all individual board members on key activities including hearing events, decision-writing and mediation.

5.7 Insufficient Documentation to Justify Hiring of Board Members

As discussed in more detail in **Section 4.6** concerning the Assessment Review Board, the appointment of members to an adjudicative tribunal or board is required to be competitive and merit-based.

Based on a sample of files we reviewed on the selection of Ontario Municipal Board (Municipal Board) members, it was not always clear how the candidates for an appointment were evaluated and selected. In 2016, five candidates were interviewed by a two-member panel for two full-time member positions. We found one of the members from the panel did not score any of the five candidates interviewed, and the other member of the panel did not provide a complete scoring for two of the five candidates. As a result, documentation was incomplete to demonstrate how the two successful candidates were selected.

Based on the review of recruitment files, we also noted the following:

- One successful candidate had previously applied for a Municipal Board position in 2013 but the scoring documents completed by the interview panel members in 2013 indicated that the candidate did not satisfy the Municipal Board's requirements at that time. At the time of the 2016 competition, the candidate's work and education qualifications had not significantly changed.

- A second candidate received no scoring from the recruitment panel in 2016 on both their written assignment and from their interview responses, despite being a professional planner and a qualified lawyer. This candidate was not selected for appointment.
- A third candidate only received a score based on their responses to the interview questions from the recruitment panel but did not receive a score by the panel for their written assignment from the 2016 recruitment competition. This candidate was not selected for appointment.

RECOMMENDATION 13

To ensure the appointment process of board members adheres to the *Adjudicative Tribunals Accountability, Governance and Appointment Act, 2009*, we recommend that the Ontario Municipal Board, together with Environment and Land Tribunals Ontario, thoroughly document its justification of recommended and selected candidates.

MINISTRY RESPONSE

The Ministry of the Attorney General will monitor and track the proposed improvements related to the interview process.

RESPONSE FROM ENVIRONMENT AND LAND TRIBUNALS ONTARIO

Environment and Land Tribunals Ontario (ELTO) and the Ontario Municipal Board are committed to a merit-based approach to the selection of members recommended for appointment by the Executive Chair.

Within the next six months, ELTO will review its processes for documenting the selection of member candidates for recommendation and implement improvements to ensure complete written records are created and stored.

Appendix 1: Board Members' Appointment Process

Prepared by the Office of the Auditor General of Ontario

Step	Details
Step 1: Vacant positions are identified and advertised by Environment and Land Tribunals Ontario (Tribunals) and the Public Appointments Secretariat.	The Executive Chair, with the approval from the Ministry of the Attorney General (Ministry), identifies a member vacancy. The Executive Office prepares a job advertisement and the information is forwarded to the Ministry for approval. Upon ministry approval, it is forwarded to the Public Appointments Secretariat. The vacant position is advertised on the Secretariat's website and advertised by Environment and Land Tribunals Ontario (Tribunals) in industry-related sites, such as Ontario Reports.
Step 2: Interested individuals apply for appointments online or by mail.	Any member of the public can apply for an appointment online through the Secretariat's website. All applications received by the Secretariat for the advertised position(s) are forwarded to the Tribunals. The Executive Chair and the Associate Chair from the applicable tribunal or board vet the resumes for suitability of the interested candidates. An interview panel composed of the Executive Chair, Associate Chair and possibly a third individual (such as the Vice Chair from the Environment and Land Tribunals of Ontario), interview the screened and identified candidates. Based on the outcomes of the interviews and assessment of qualifications, the Executive Chair will recommend candidates to the Attorney General for the advertised position.
Step 3: Candidates are identified, vetted, short-listed and interviewed by the Tribunals. Recommendations are made by the Executive Chair to the Attorney General.	The Executive Chair's recommendations for all board appointments are vetted and approved by the Attorney General. The Ministry conducts a conflict-of-interest check for each proposed member before forwarding the names to Cabinet for approval. With all member appointments being greater than one year, these appointments are subject to review by the Standing Committee on Government Agencies. The Committee has 14 days to decide whether or not to review a candidate. Candidates who are requested to appear before the Committee will be questioned on their qualifications and their appointment process. The Committee does not have veto power to block any member appointment.
Step 4: Applications of candidates who are approved by the Attorney General are forwarded to the Public Appointment Secretariat for Cabinet consideration.	Once the review has been completed or waived, the Lieutenant Governor signs the Order-in-Council. All approved board members are listed on the Public Appointments Secretariat website.

Appendix 2: Property Appeal Processes in British Columbia, Alberta, Saskatchewan, Manitoba and Nova Scotia

Prepared by the Office of the Auditor General of Ontario

British Columbia

Property owners who want to appeal their assessments need to appear first before a Property Assessment Review Panel (Panel). Panel members are appointed by the Minister responsible for the Assessment Act (Province of British Columbia). There are approximately 75 Panels across British Columbia. If after a Panel hearing a person is dissatisfied with the decision, they can appeal the decision to the next level, the Property Assessment Appeal Board (Board) whose members are appointed by the Cabinet of the provincial government. The annual remuneration to both the Panel and Board members is posted on their respective websites.

Alberta

Property owners who want to appeal their municipal assessments file an appeal with their municipality's Assessment Review Board. Each municipality in Alberta has an Assessment Review Board and all board members are appointed by the municipality for appeals concerning farmland and residential properties with up to three dwelling units. For all other municipally assessed properties, such as larger residential and non-residential properties, a member of the Municipal Government Board—a provincial board that makes decisions about land planning and certain assessment matters—joins two municipally appointed members of the Municipal Assessment Review Board to hear the appeal. The Municipal Government Board charges municipalities after a ninth hearing is held in that municipality. Remuneration to Municipal Government Board members is disclosed publicly.

Saskatchewan

Property owners who want to appeal their assessment need to file an appeal with their municipal Board of Revision. Each municipality is required to have a Board of Revision. Its members are appointed by the Municipal Council. If property owners want to appeal the decision of the Board of Revision, they can file an appeal with the Assessment Appeals Committee (Committee) of the Saskatchewan Municipal Board, a provincial entity that is arm's length from the government. Full-time board members are appointed by an Order in Council and part-time board members are appointed by a Minister's order. Minimum qualifications for board members are outlined in regulations. Usually, appeals are first heard by the local Board of Revision. However there are certain situations where appeals come directly to the Committee, such as a refusal to hear by the Board of Revision or when an appeal includes commercial or industrial property with an assessed value in excess of $1 million.

Manitoba

Property owners who want to appeal their assessments need to file an appeal with their Local Board of Revision. Each municipality has a Board of Revision. Its members are appointed by the Municipal Council. If the property owner wants to appeal the decision of the Board of Revision, they can file an assessment appeal with the Manitoba Municipal Board, a provincial entity. Board members are appointed by an Order in Council and generally have experience in property assessment and assessment appeals.

Nova Scotia

Property owners who want to appeal their property assessments are required first to file an appeal with the Property Valuation Services Corporation (the Corporation). The Corporation is a municipally funded not-for-profit corporation and is responsible for assessing all properties in Nova Scotia. If property owners are not satisfied with the appeal results based on the Corporation's review, they can appeal to the Nova Scotia Assessment Appeal Tribunal (Tribunal), an independent third-party tribunal whose members are appointed and trained by the Province. Decisions of the Tribunal can be appealed to the Nova Scotia Utility and Review Board, a provincial independent quasi-judicial body with broad adjudicative and regulatory powers. The board members are appointed in a manner similar to Provincial Court Judges in Nova Scotia.

Appendix 3: Key Legislation and Authorities of Land-Use Planning in Ontario

Prepared by the Office of the Auditor General of Ontario

Legislative Authority	Legislation and Policy	Description
Ministry of Municipal Affairs	*Planning Act*	The *Planning Act* sets out the rules for land-use planning in Ontario and describes how land uses may be controlled and who may control them.
	Provincial Policy Statement	The Provincial Policy Statement, issued under the *Planning Act*, provides policy direction on matters of provincial interest related to land-use planning and development and is applied province-wide. It includes key policy issues that affect communities, such as: • efficient use and management of land use and infrastructure; • protection of environment and resources; and • appropriate opportunities for employment and residential development.
	Provincial Plans	The Ministry issues provincial plans such as the Greenbelt Plan and the Growth Plan for the Greater Golden Horseshoe.
Municipalities	Official Plans and Zoning Bylaws	Under the *Planning Act*, municipalities adopt an Official Plan, which sets out the municipality's general planning goals and policies that will guide future land use. Zoning bylaws implement the Official Plan's policies by setting out the rules and regulations that control development in the municipality.

Appendix 4: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Roles and responsibilities are clearly defined and accountability requirements are established to support the operations of the Assessment Review Board and Ontario Municipal Board (Boards).
2.	Effective management information systems provide timely, accurate and complete information for decision-making on member and staff requirements, case-tracking and scheduling, caseload management, and Boards' operating costs and other expenses.
3.	Proactive measures are in place to prevent undue delays during the dispute resolution process. Reasons for any backlogs are identified, analyzed and addressed in a timely and appropriate manner.
4.	Effective processes are in place to ensure that board members are making impartial and supportable decisions, and receive appropriate training. Performance evaluations of board members and quality review of their decisions are conducted on a timely basis, and appropriate actions are taken to address any issues identified.
5.	The Boards, together with Environment and Land Tribunals Ontario and the Ministry of the Attorney General, have effective processes in place to ensure their operations are cost-effective, including the use of alternative dispute resolutions and new technologies.
6.	Adequate performance measures are in place to monitor and report publicly on the effectiveness of the Boards. In addition, reasonable targets are established to allow periodic reporting and evaluation of performance relative to these targets.

Ministry of Health and Long-Term Care

Cancer Treatment Services

1.0 Summary

Cancer is a group of more than 200 different diseases characterized by the uncontrolled spread of abnormal cells in the body. Overall, 63% of Ontarians diagnosed with cancer currently survive the first five years after diagnosis, compared with just half in the 1970s.

However, cancer is also the leading cause of death in this province, with more than 29,000 Ontarians estimated to have died of cancer in 2016, accounting for 30% of all deaths in the province that year. An estimated 86,000 new cancer cases were diagnosed in Ontario in 2016.

The Ministry of Health and Long-Term Care (Ministry) has overall responsibility for cancer (or oncological) care in the province, and Cancer Care Ontario (CCO) is the provincial agency responsible under the Ministry for funding hospitals, collecting cancer data, developing clinical standards and planning cancer services to meet patient needs.

About 100 Ontario hospitals deliver cancer-treatment services across the province's 14 Local Health Integration Networks (LHINs), and 14 of these hospitals are designated as regional cancer centres, meaning they can deliver the most complex cancer treatments.

In 2015/16, CCO and the Ministry spent a combined total of about $1.6 billion to treat cancer, most of it for hospital procedures and treatment drugs. The Ministry also provides additional funding to hospitals through hospitals' global budgets to support some cancer surgeries, expand the capacity of radiation services, and cover the cost of cancer drugs administered in hospitals.

The three main treatments for cancer are surgery to remove cancerous tissue, and radiation and drug therapy (such as chemotherapy) to kill or shrink cancerous cells. A patient can receive one or more of these treatments.

Stem cell transplant is another, more specialized treatment in which healthy bone-marrow cells are transplanted into the patient to aid the growth of healthy new blood cells. Supportive services for cancer patients include symptom management and psychosocial cancer services.

Cancer can be diagnosed through procedures such as computerized tomography (CT) scans, which use x-rays; magnetic resonance imaging (MRIs), which use magnetic fields and pulses of radio waves; positron emission tomography (PET) scans, which use radioactive tracers; and biopsies, in which tissue samples are extracted for analysis.

The Cancer Quality Council of Ontario, a quasi-independent body that monitors and reports on the province's cancer-system performance, says Ontario has lower mortality rates than the rest of Canada for colorectal, lung and female breast cancers. Statistics Canada says the five-year survival rates

for prostate, breast, colorectal and lung cancers, the most common types of cancer in Ontario, are higher than elsewhere in Canada.

Despite these successes, our audit found that some cancer services are not provided in a timely and equitable manner to meet the needs of Ontarians. For example:

- **There are significant regional variations in wait times for some urgent cancer surgeries.** Urgent surgeries for 15 out of 17 types of cancer did not meet the 14-day wait-time target. We also noted significant wait-time variations by LHIN. For example, wait times for urgent gynaecological cancer surgery ranged from 12 days at South East LHIN to 74 days at Central West LHIN, compared to the Ministry's wait time target of 14 days. In addition, we found that hospitals located near each other had significant wait-time differences. For example, the difference in 90th percentile wait times (after the 10% of patients with the longest wait times are removed) for urgent breast cancer surgeries between two hospitals just 15 kilometres apart was 30 days (14 days at one hospital and 44 at the other).
- **Some radiation treatment plans are not reviewed according to clinical guidelines.** Review of radiation treatment plans by a second radiation oncologist in the early stages of radiation therapy is a quality-assurance process to ensure patient safety and treatment effectiveness, and to detect any errors before administering significant additional doses of radiation. However, we noted that 13% of curative treatment plans (intended to cure a cancer) were never reviewed, and another 11% were not reviewed within recommended time frames. We also noted that 72% of palliative treatment plans (intended to relieve pain and other symptoms) were never reviewed. CCO informed us that the review of palliative treatment plans is a new initiative and therefore has not been a priority relative to the review of curative treatment plans.
- **Radiation treatment is under-utilized.** CCO set a target to use radiation treatment in 48% of cases in Ontario, in keeping with evidence-based international best practices. However, the 2015/16 rate for radiation treatment province-wide was only 39%. CCO indicated that proximity to radiation centres and physician referral behaviours are the main reasons for the low utilization rates. CCO estimates that in 2015/16, about 1,500 more patients could have benefitted from radiation therapy had its target been met.
- **Inequities exist in access to take-home cancer drugs.** Ontarians who use cancer drugs taken at home are covered through the publicly funded Ontario Drug Benefit Program if they are seniors aged 65 or over, living in homes for special care or long-term care homes, receiving professional home and community care services or receiving social assistance benefits. These patients pay a deductible of about $50 or less per year on average. Although the Province also pays the cost of take-home cancer drugs for patients younger than 65 years old with high drug costs relative to their incomes through the Trillium Drug Program, these patients have to pay a deductible of about 4% of their annual household income. However, patients who do not fit in any of these categories must rely on private insurance (if they have it) or pay for it themselves. In comparison, British Columbia, Alberta, Saskatchewan and Manitoba, which operate different drug funding models than Ontario, cover the costs of all publicly funded cancer drugs for all patients. Cancer patients in these provinces do not have to apply for financial support through a lengthy process similar to the one used in Ontario.
- **Supports are inadequate for patients on proper and safe usage of take-home cancer drugs.** Patients using take-home cancer drugs should follow special instructions for administration and safe handling of oral cancer

drugs. However, it appears that patients were not adequately educated and monitored in the use of their take-home cancer drugs. In addition, these drugs can be dispensed by any pharmacy in Ontario. In comparison, Alberta requires that take-home cancer drugs be dispensed only at designated pharmacies by pharmacists specially trained in cancer drug therapies and dosages.

- **No oversight of cancer drug therapy is provided at private specialty clinics.** Many private clinics are not regulated or licensed by the Ministry or CCO, so they are not subject to the same level of oversight and standards as hospitals with respect to cancer drug therapy. They are not required, for example, to have an onsite emergency department; nor do they have to employ oncologists or nurses specialized in oncology to provide cancer services. Ontario's College of Physicians and Surgeons does not have the authority to inspect or assess the delivery of cancer drug therapy at private specialty clinics.
- **Stem cell transplant wait times are long.** In 2015/16, actual wait times for autologous transplants (using the patient's own previously stored stem cells) ranged between 234 days and 359 days, or about 1.5 times longer than CCO's target wait time, and only about half of these transplants met the wait-time target. Actual wait times for allogenic transplants (using stem cells donated by someone else) were up to 285 days, almost seven times longer than the CCO target, and only 9% of these transplants met the wait-time target.
- **There is insufficient capacity for stem cell transplants.** Limited capacity for stem cell transplants has been raised as an issue in Ontario since 2009. As a result, Ontario sometimes sends patients to the United States for allogenic stem cell transplants. The average cost in the United States per procedure was $660,000 (all amounts in this report are in Canadian dollars), or almost five times the $128,000 average in Ontario. From 2015 to 2017, we estimated the costs for out-of-country transplants to be $43 million—or about $34 million more than it would have cost here had the capacity existed. CCO projected that another 106 patients will be sent to the U.S. for transplants, and we estimated these transplants would cost around $70 million between July 2017 and the end of 2020/21.
- **Symptom-management support is inadequate.** Support services in Ontario were inadequate to help ease patient symptoms and side effects during cancer treatment, and lagged behind those of other jurisdictions, such as Manitoba and the U.S. As a result, many patients visited hospital emergency rooms at least once during their treatment—even though CCO says emergency rooms are inappropriate for most cancer patients.
- **Psychosocial cancer services are insufficient and inconsistent.** According to the Canadian Association of Psychosocial Oncology, as many as 40% of cancer patients require help from specialized professionals in addition to their medical treatment. However, we noted that in 2016/17, only 5.8% of patients received consultations with dietitians, and only 6.6% with social workers. More than half of the 14 regional cancer centres did not have a dedicated psychiatrist, occupational therapist, psychologist, or physiotherapist on site.
- **Ontario is slow to adopt advances in positron emission tomography (PET) scans.** Ontario performed fewer PET scans per 1,000 people than elsewhere in Canada or in other countries. PET scans use injected radioactive tracers to create images of cancers. We found that 41% of the province's PET scan capacity was unused in 2016/17, suggesting that more patients could receive and potentially benefit from PET scans without adding more PET scanners. In addition, Ontario has not updated eligibility criteria or OHIP coverage

rules for PET scans since 2013. Ontario has also been slow to adopt new radioactive tracers, which led some Ontarians to seek PET scans using these radioactive tracers out-of-country at an average cost of $8,500 per scan.

- **Significant regional variations exist in CT scan and MRI wait times for cancer patients.** We reviewed 2016/17 wait-time data for urgent, less urgent and non-urgent CT scans and MRIs and found that only 59% of CT scans and 51% of MRIs for cancer patients were performed within the Ministry's wait-time targets. We also noted significant wait-time variations among hospitals. For example, cancer patients had to wait up to 49 days for CT scans at one hospital, compared to up to 11 days at another just five kilometres away. Other patients had to wait up to 42 days for MRIs at one hospital, compared to up to 15 days at another just 25 kilometres away.
- **Wait times for biopsies are long.** Fewer than half (46%) of biopsies performed in hospital operating rooms were done within the Ministry's targeted wait time of 14 days. The 90th percentile wait time was 78 days, or almost six times longer than the target. This means that 10% of patients wait longer than 78 days and 90% waited some amount of time under 78 days. In particular, biopsies for colorectal cancers had the longest wait times, with the 90th percentile wait time being 125 days, or almost nine times longer than the Ministry target.
- **There is no provincial peer review program for diagnostic-imaging results.** Review of diagnostic-imaging results by a second radiologist has remained inadequate even though misinterpretation of some results in 2013 led to several incorrect diagnoses in Ontario. We noted that 48% of hospitals we surveyed did not perform regularly scheduled reviews of diagnostic images. The Ministry has taken no steps to implement the province-wide peer-review program recommended by Health Quality Ontario.
- **Cancer funding is inequitable.** In Ontario, both the Ministry and CCO fund hospitals for radiation services, but they do not use a consistent method or rate to determine the amount. CCO acknowledges that the current funding approach for radiation treatment needs to be revised to ensure that hospitals are funded consistently and equitably. During the period from 2014/15 to 2016/17, we also found that CCO provided hospitals a total of $107 million for cancer drug therapy based on historical funding rather than service volumes. In addition, CCO funded about $12 million and $3.1 million for incomplete cancer drug treatments and non-malignant cases, respectively.

Overall Conclusion

Our audit found that CCO, in conjunction with the Ministry and hospitals, has effective procedures and systems in place to ensure that most—but not all—cancer patients receive treatment in a timely, equitable, and cost-efficient manner. We noted that some Ontarians' needs were not being met in the areas of stem cell transplants, access to take-home cancer drugs, radiation treatment, PET scans, symptom management and psychosocial oncology services. Wait times for some urgent cancer surgeries and diagnostic services also needed improvement.

While cancer services are provided in accordance with applicable standards, guidelines and legislation, more work is needed to improve patient-safety standards at private specialty clinics and through second reviews of radiation treatment plans and diagnostic-imaging results.

Our audit also concluded that the results and effectiveness of cancer programs in meeting their intended objectives are measured and publicly reported periodically, except for wait times relating to biopsy and psychosocial services.

This report contains 18 recommendations, consisting of 33 actions, to address our audit findings.

OVERALL RESPONSE FROM CANCER CARE ONTARIO

Cancer Care Ontario is committed to working with the Ministry of Health and Long-Term Care (Ministry) and our many partners to ensure the delivery of high-quality, sustainable and person-centred care for all Ontarians. Cancer Care Ontario appreciates the Auditor General's comprehensive audit of Cancer Treatment Services and welcomes opportunities to improve these services in Ontario.

Much work has been done by all partners in the cancer system to ensure high-quality care, which has resulted in Ontario leading the country in the five-year survival rate for the most common types of cancer. Cancer Care Ontario has enabled improvements across the system through strong partnerships, a robust performance management and accountability model, data infrastructure and clinical expertise.

The recommendations within this report build upon the work that has been done to date by Cancer Care Ontario, the Ministry and partners. The report also identifies further opportunities to drive improvements in a number of areas. Cancer Care Ontario looks forward to working collaboratively with the Ministry and our partners to address the recommendations noted within this report.

OVERALL RESPONSE FROM MINISTRY

The Ministry acknowledges the recommendations made by the Auditor General of Ontario and thanks her for conducting this timely audit. The Ministry is committed to the development and implementation of innovative initiatives and solutions that address the impact of cancer and cancer treatment on the lives of Ontarians. We welcome any insights and recommendations provided by the Auditor General.

Ontario's cancer system is among the best in the world. Cancer survival for nearly all cancer types is improving and mortality rates are declining, particularly from breast, colorectal and lung cancers. In 2016/17, Ontario announced investments of $130 million over three years for cancer services. The investment allows for the delivery of more cancer care services, such as PET, and will help reduce wait times for cancer surgeries. In 2017, the Ministry is investing in capital infrastructure to increase provincial capacity and adding an additional $32 million in treatment volume funding for stem cell transplants and acute leukemia, which will mean fewer patients will require transplants out of country.

Ontario's public drug programs provide funding for both oral and injectable cancer drugs based on an evidence-based review process. Ontario's investment in cancer drugs has increased by an average rate of 12% per year, with cancer drug expenditures being approximately $791 million in 2016/17.

The audit identifies area of consideration that the Ministry is already taking measures to address, which reinforces its commitment to current work and future direction. The Ministry looks forward to a continued partnership with Cancer Care Ontario to ensure equitable access to cancer treatment services for all Ontarians and continued cancer system improvement.

The Ministry will continue to work closely with Cancer Care Ontario to ensure that Ontarians have access to high-quality cancer treatment services.

2.0 Background

2.1 Cancer Overview

Cancer is a group of more than 200 different diseases characterized by the uncontrolled spread of abnormal cells in the body, and can be grouped into five main categories, according to the type of cell they start in:

- **carcinoma:** begins in the skin or in tissues that line or cover internal organs or glands, such as colon, lung and prostate;
- **sarcoma:** starts in the connective or supportive tissues, such as bone, cartilage, fat, muscle, or blood vessels;
- **leukemia:** originates in blood-forming tissue, such as bone marrow;
- **lymphoma and myeloma:** begins in the cells of the immune system; and
- **brain and spinal cord cancers:** known as central nervous system cancers.

Cancer Care Ontario (CCO), the Canadian Cancer Society and Statistics Canada all say that about half of all Ontarians will develop a cancer in their lifetime, and one in four Ontarians will die of it.

Cancer is the leading cause of death in Ontario; CCO estimates that more than 29,000 people in the province died of cancer in 2016, accounting for 30% of all Ontario deaths that year. It estimates about 86,000 new cases were diagnosed the same year in Ontario (see **Figure 1**). CCO also predicts the number of new cases will rise in coming years because Ontario's population is getting older, and cancer is a disease of aging.

In Ontario, the most common newly diagnosed cancers are lung, colorectal, breast and prostate. Ontario leads the country in five-year survival rates for these four cancers, and it has the third-lowest cancer-related mortality rate among other jurisdictions in Canada. (Five-year survival rates measure the percentage of people still alive five years after a diagnosis of cancer.)

Figure 1: Distribution of New Cancer Cases by Cancer Type, 2016

Source of data: Cancer Care Ontario

Type of Cancer	# of New Cases	% of New Cases
Breast	11,285	13
Colorectal	10,912	13
Lung	10,824	12
Prostate	8,266	10
Bladder	4,969	6
Skin: Melanoma	3,840	4
Uterus	3,213	4
Thyroid	3,207	4
Kidney	2,623	3
Pancreas	2,106	2
Liver	1,362	2
Cervix	717	1
Other Cancers	22,324	26
Total	**85,648**	**100**

2.2 Cancer Treatment Services

2.2.1 Diagnosis

The first step in cancer treatment is diagnosis, and early diagnosis improves chances of survival and recovery. Diagnosis is used to confirm the presence of cancer, identify its type and grade (how quickly cancer grows and spreads), determine how far it has progressed (its stage), and identify a treatment plan.

There are two principal diagnostic methods: biopsies and imaging. In a biopsy, physicians remove body tissue for laboratory analysis to determine the type and extent of cancer. Images are generated by one or a combination of the three following devices:

- computed tomography (CT) scan, which uses x-rays;
- magnetic resonance imaging (MRI), which uses a magnetic field and pulses of radio waves; and
- positron emission tomography (PET) scan, which uses radioactive tracers.

2.2.2 Treatment

Once a diagnosis of cancer is made, oncologists use one or more of the following treatments to combat it:

- **radiation**, administered to destroy cancerous cells or reduce the size of tumours while taking steps to prevent damage to normal healthy cells and tissue;
- **surgery**, most effective for completely removing early-stage cancerous tumours and/or tissue in cancers that have not spread beyond the part of the body in which they originated; and
- **drug therapy (such as chemotherapy)**, used before surgery or radiation to shrink a tumour; with radiation; after surgery or radiation to destroy any remaining cancerous cells; and/or as a standalone treatment. Drugs (medication) can be administered at home, usually orally, and/or in hospital, usually by injection or intravenously. Apart from chemotherapy, immunotherapy (a new field of cancer research worldwide with clinical trials under way in Canada) is another type of drug therapy that enhances a patient's immune system to fight cancer.

2.2.3 Additional Treatments and Services

In addition to the three main forms of treatment above, stem cell transplant is a specialized treatment to transplant healthy bone-marrow cells into patients who have certain types of cancers, such as leukemia and some lymphomas. The transplants help replace blood-forming stem cells destroyed by cancer, chemotherapy and/or radiation therapy.

Cancer patients also receive help with symptom-management, a specialized service that helps them deal with physical symptoms such as pain, nausea, fever and vomiting, and emotional symptoms such as depression and anxiety.

Psychosocial Oncology is another specialized service that aims to help cancer patients and their families improve their quality of life and emotional well-being by providing dietary, physical, psychiatric, occupational, and other professional support.

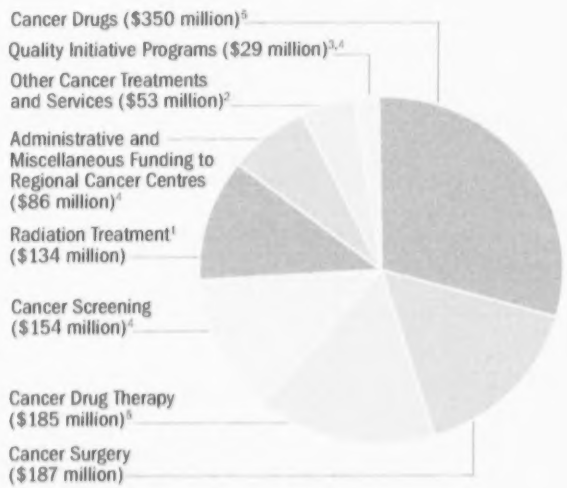
2.3 Cancer Spending and Administration

Both the Ministry and CCO fund cancer treatment services in Ontario, and they spent a combined total of about $1.6 billion on cancer treatment in 2015/16.

Of the total, CCO spent about $1.2 billion, primarily on the in-hospital costs of cancer surgery, cancer drug therapy (chemotherapy), radiation treatment and other specialized services, such as stem cell transplants. **Figure 2** provides a breakdown of CCO spending in 2015/16.

Figure 2: Cancer Care Ontario Expenditures on Cancer Programs, 2015/16

Source of data: Cancer Care Ontario


Cancer Drugs ($350 million)[5]
Quality Initiative Programs ($29 million)[3,4]
Other Cancer Treatments and Services ($53 million)[2]
Administrative and Miscellaneous Funding to Regional Cancer Centres ($86 million)[4]
Radiation Treatment[1] ($134 million)
Cancer Screening ($154 million)[4]
Cancer Drug Therapy ($185 million)[5]
Cancer Surgery ($187 million)

1. Includes radiation equipment.
2. Includes stem cell transplants.
3. Covers cost of CCO senior staff engaged to monitor quality, develop evidence-based guidance and implement best practices.
4. Our audit covers all areas of cancer expenditures except Cancer Screening, Quality Initiative programs and the administrative and miscellaneous funding to regional cancer centres. We last audited Cancer Screening in 2012, and followed up in 2014.
5. Ontario residents who qualify for OHIP and are receiving approved outpatient intravenous cancer drug treatment at the hospital can receive full coverage under the New Drug Funding Program or the cancer drug therapy Quality Based Procedures funding program and pay nothing out-of-pocket.

The Ministry spent an additional $375 million in 2015/16 on cancer drugs covered under the Ontario Drug Benefit Program. Specifically, for patients requiring take-home cancer drugs: Ontario pays the drug cost for people 65 and older, receiving social assistance benefits, living in homes for special care and long-term-care homes or receiving professional home and community care services. These patients pay a deductible of about $50 or less per year on average. The Province also pays the cost of take-home cancer drugs for patients under the age of 65 with high drug costs relative to their incomes. These patients pay a deductible of about 4% of their annual household income. Ontarians who do not receive public benefits under any of these categories have to pay out-of-pocket for the costs of cancer drugs taken at home, unless they have private health-care insurance coverage.

The Ministry also provides additional funding directly to hospitals to support some cancer surgeries, expand the capacity of radiation services, and cover the cost of cancer drugs administered in hospitals. Except for experimental drugs, patients receiving cancer drugs in a hospital are entitled to receive full coverage as long as they have a valid Ontario Health Insurance Plan card and the drug is prescribed by an attending health-care professional.

Figure 3 shows the different players in Ontario's cancer-care system.

3.0 Audit Objective and Scope

The objective of our audit was to assess whether Cancer Care Ontario (CCO), in conjunction with the Ministry of Health and Long-Term Care (Ministry) and Ontario hospitals, has effective procedures and systems in place to:

- ensure that cancer treatments are provided in a timely and equitable manner to meet Ontarians' needs in a cost-efficient manner and in accordance with applicable standards, guidelines and legislation; and
- measure and publicly report periodically on the results and effectiveness of cancer programs in meeting their intended objectives.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at CCO and the Ministry reviewed and agreed with our objective and associated criteria as listed in **Appendix 1**.

Our audit work was conducted primarily at CCO offices in Toronto from December 2016 to June 2017. We obtained written representation from CCO and the Ministry that, effective November 14, 2017, they have provided us with all the information they are aware of that could significantly affect the findings of this report. We also interviewed senior management and examined related data and documentation at CCO and the Ministry.

As well, we spoke with key personnel at all 14 regional cancer centres and at two community hospitals (see **Appendix 2**).

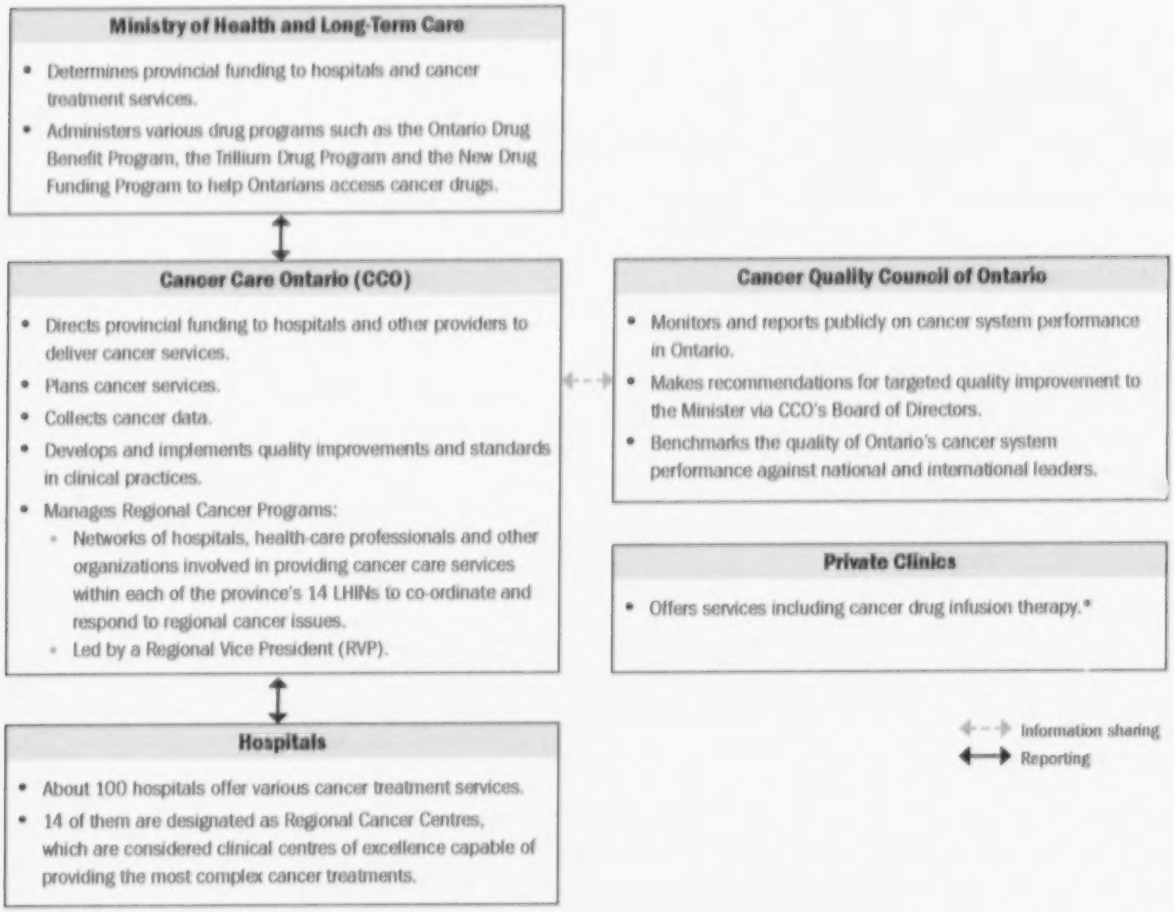
In addition, we spoke with various stakeholder groups, including the Canadian Cancer Society, Canadian Partnership Against Cancer, Canadian Association of Psychosocial Oncology, Ontario College of Pharmacists, College of Physicians and Surgeons and Ontario Nurses Association.

To obtain a better understanding of the cancer system, we conducted a survey of the 14 regional cancer centres (we received a response rate of 64%) and 71 hospitals in Ontario that received funding from CCO to deliver cancer treatments (we received a response rate of 63%).

We reviewed relevant research and best practices of cancer-treatment services in Ontario and other jurisdictions. We also engaged independent advisers with expertise in the field of cancer-treatment services to assist us on this audit.

Figure 3: Roles and Responsibilities of Key Players in Ontario's Cancer System

Prepared by the Office of the Auditor General of Ontario


Ministry of Health and Long-Term Care
• Determines provincial funding to hospitals and cancer treatment services.
• Administers various drug programs such as the Ontario Drug Benefit Program, the Trillium Drug Program and the New Drug Funding Program to help Ontarians access cancer drugs.
Cancer Care Ontario (CCO)
• Directs provincial funding to hospitals and other providers to deliver cancer services.
• Plans cancer services.
• Collects cancer data.
• Develops and implements quality improvements and standards in clinical practices.
• Manages Regional Cancer Programs:
◦ Networks of hospitals, health-care professionals and other organizations involved in providing cancer care services within each of the province's 14 LHINs to co-ordinate and respond to regional cancer issues.
◦ Led by a Regional Vice President (RVP).
Cancer Quality Council of Ontario
• Monitors and reports publicly on cancer system performance in Ontario.
• Makes recommendations for targeted quality improvement to the Minister via CCO's Board of Directors.
• Benchmarks the quality of Ontario's cancer system performance against national and international leaders.
Private Clinics
• Offers services including cancer drug infusion therapy.*
Hospitals
• About 100 hospitals offer various cancer treatment services.
• 14 of them are designated as Regional Cancer Centres, which are considered clinical centres of excellence capable of providing the most complex cancer treatments.
Information sharing
Reporting

* Cancer infusion therapies administered at these clinics are for cancer drugs that have been approved by Health Canada but are not covered by public funding or OHIP. Payments for these drugs are through the patient's third party insurance and/or self-pay.

4.0 Detailed Audit Observations

4.1 Radiation Treatment

4.1.1 Radiation Treatment Under-Utilized

We found that radiation treatment, which seeks to kill or shrink cancerous cells and tumours using radioactive materials beamed or inserted into the body, is under-utilized in all regions of Ontario.

CCO set a province-wide target to administer radiation therapy to 48% of cancer patients at some point during their treatment, in accordance with evidence-based international standards and best-practice guidelines.

We reviewed CCO data on radiation from 2011/12 to 2015/16 and found that the treatment rate province-wide rose from 38% to 39% during that time. In 2015/16, CCO estimated that about 1,500 more patients could have benefitted from radiation therapy had its target been met that year.

Figure 4 shows that none of the Local Health Integration Networks (LHINs) met the 48% target in 2015/16. We also noted that utilization rates of radiation treatment varied in 2015/16 among LHINs.

CCO indicated that proximity to radiation centres and physician referral behaviours are the main reasons for the low utilization rates. Patients who live far from radiation facilities, for example, or those treated in hospitals that do not offer radiation, were less likely to receive it than those treated at hospitals that offered radiation.

4.1.2 Some Radiation Treatment Plans Not Reviewed According to Clinical Guidelines

Hospitals did not consistently perform reviews of radiation treatment plans according to clinical guidelines.

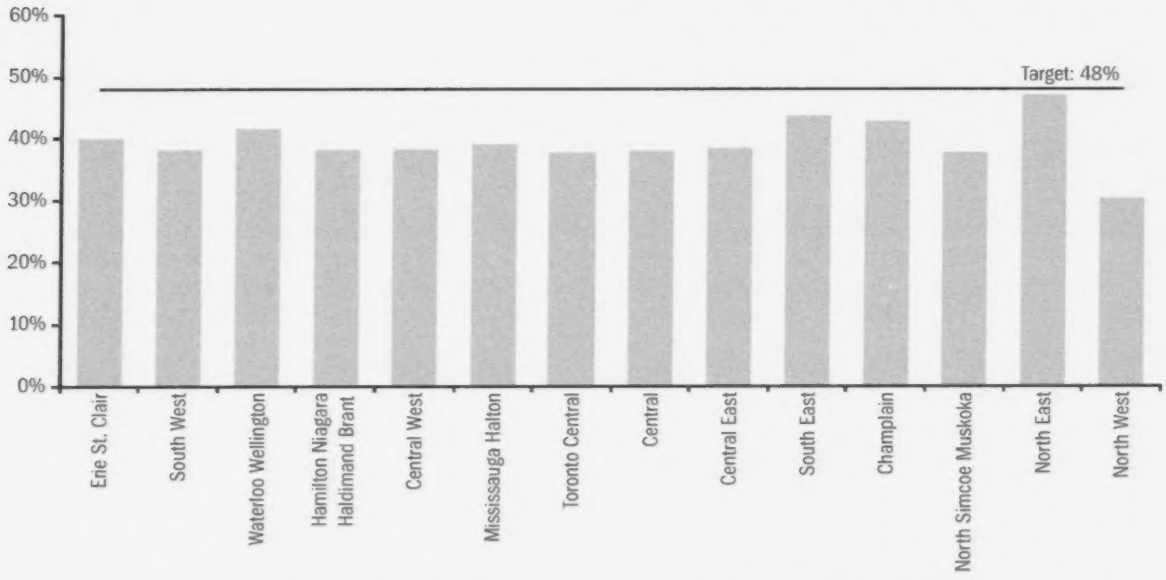
The review of radiation treatment plans by a second radiation oncologist in the early stages of radiation therapy is a quality-assurance process to standardize patient care, ensure patient safety and treatment effectiveness, and detect any potential clinical errors. It includes a review of radiation dosage, and mapping to define the borders of a tumour and exclude healthy normal organs from radiation.

In 2015, the Canadian Partnership for Quality Radiation Therapy (comprised of the Canadian Organization of Medical Physicists, the Canadian Association of Medical Radiation Technologists, the Canadian Association of Radiation Oncology and the Canadian Partnership Against Cancer) recommended a review of each curative radiation treatment plan by a second radiation oncologist before it begins or, at the very least, before 25% of the total prescribed dose is administered.

A review of treatment plans prior to, or in the early stages of radiation therapy, is most beneficial, because any errors can be corrected before significant additional doses of radiation are administered. The American Society for Radiation Oncology conducted a survey in 2013—ninety-three percent of respondents were practicing radiation oncologists and the remaining 7% of respondents were residents or trainees—and reported that as many as

Figure 4: Utilization Rates for Radiation Treatment by LHIN, 2015/16

Source of data: Cancer Care Ontario (CCO)



Note: CCO informed us that the utilization rate from North West LHIN is likely underestimated because many patients in the west of the LHIN receive treatment in Manitoba.

10% of treatments were changed based on results of reviews. In addition, 2013/14 Ontario data on the review of radiation treatment plans also indicated that changes were recommended in about 3% of cases.

CCO collects data on reviews of radiation treatment plans from hospitals and divides it into two categories—treatment plans with curative intent (aiming to cure a cancer), and treatment plans with palliative intent (seeking to relieve pain and other symptoms).

Based on our examination of CCO data on reviews of radiation treatment plans in 2016/17, we found that:

- Thirteen percent of curative treatment plans were never reviewed, and an additional 11% were not reviewed within the recommended time frame. The percentage of curative treatment plans reviewed within the recommended time frame also varied significantly among hospitals, ranging from 52% to 100%.
- Only 28% of palliative treatment plans were reviewed. The percentage of palliative treatment plans reviewed within the recommended time frame also varied significantly among hospitals, ranging from 1% to 96%.

Although CCO collected data on reviews of radiation treatment plans, it did not assess whether cancer centres reviewed palliative-treatment plans. In addition, CCO did not assess whether cancer centres reviewed curative-treatment plans within the recommended time frame. Since the timing of reviews is not included in the performance-management scorecard used by CCO to assess hospital performance, the hospitals were not held accountable for failing to follow clinical guidelines for review.

CCO informed us that the review of palliative treatment plans is a new initiative and therefore has not been a priority relative to the review of curative treatment plans. CCO also informed us that this new initiative has been slowly ramping up since 2013 and that starting in 2017/18, hospitals will be required to perform reviews of palliative radiation treatment plans. The minimum review target for palliative treatment plans at each centre in 2017/18 will be 10%, with an overall provincial target of 30%.

RECOMMENDATION 1

To better ensure that cancer patients receive timely and safe radiation treatment, we recommend that Cancer Care Ontario work with the Ministry of Health and Long-Term Care and hospitals to:

- develop a strategy to increase the accessibility of radiation services to patients who do not live close to a radiation centre;
- implement a program to increase physician awareness of the availability and benefit of radiation treatment; and
- monitor reviews of radiation treatment plans to determine whether the reviews are done in accordance with clinical guidelines.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees that safe and timely access to radiation treatment is intrinsic to high-quality cancer care.

In order to ensure that patients have equitable and appropriate access to radiation-treatment facilities, Cancer Care Ontario developed a 10-year Radiation Treatment Capital Investment Strategy. This strategy is updated every five years as new data about projected cancer incidence and treatment demand becomes available and to keep pace with clinical practice and advancements in technology. Additionally, there is a rolling two-year capital replacement plan. The location, size and timing of investments toward these facilities are based on a standard framework with input from a multi-disciplinary committee with representation from across the province. The Ministry has supported this strategy, resulting in an increase in the number of radiation treatment units from

65 in 2000 to 107 in 2017 in alignment with the recommendations.

Cancer Care Ontario is analyzing new cancer incidence data that became available in August 2017 in order to determine the optimal number and location of radiation-treatment facilities needed in the province. By March 2018, Cancer Care Ontario will update its Radiation Treatment Capital Investment Strategy (last updated in 2012), which guides capital investments to build and equip radiation treatment facilities.

Cancer Care Ontario is working closely with regional partners to increase physician awareness of the indications for and availability of radiation treatment locally. Detailed LHIN-specific reports identifying groups of patients who could benefit from treatment have been developed and shared with Regional Cancer Programs to ensure that local initiatives target these patients and their physicians.

Cancer Care Ontario will continue to work with Regional Cancer Programs to increase peer review of radiation treatment plans according to clinical guidelines. To our knowledge, Ontario is the only jurisdiction that measures peer review of radiation treatment plans and monitors whether the peer review is performed on each individual treatment plan and the timing of this review in accordance with clinical guidelines (before, during or after treatment). This information is shared with Regional Cancer Programs as part of our quality improvement program.

4.2 Cancer Surgery

4.2.1 Long Wait Times for Some Urgent Cancer Surgical Consultations and Surgeries

Our audit found that although wait times for surgical cancer consultations and surgeries were generally shorter than for non-cancer cases, they were still long and further improvements could be made.

Cancer surgical consultations and surgeries in Ontario are classified according to four priority levels: emergency, urgent, less urgent, and non-urgent. In 2016/17, 99% of cancer surgical consultations and surgeries were in the last three priorities.

In 2016/17, CCO collected wait-time data for 31,000 surgical consultations. The provincial wait-time targets say that 90% of all cancer-surgery patients should receive their surgical consultation within 10 days for urgent cases. Urgent is defined as high suspicion of cancer or biopsy positive for cancer where patients have high likelihood of having highly aggressive malignancies. We noted long wait times for these cases. For example:

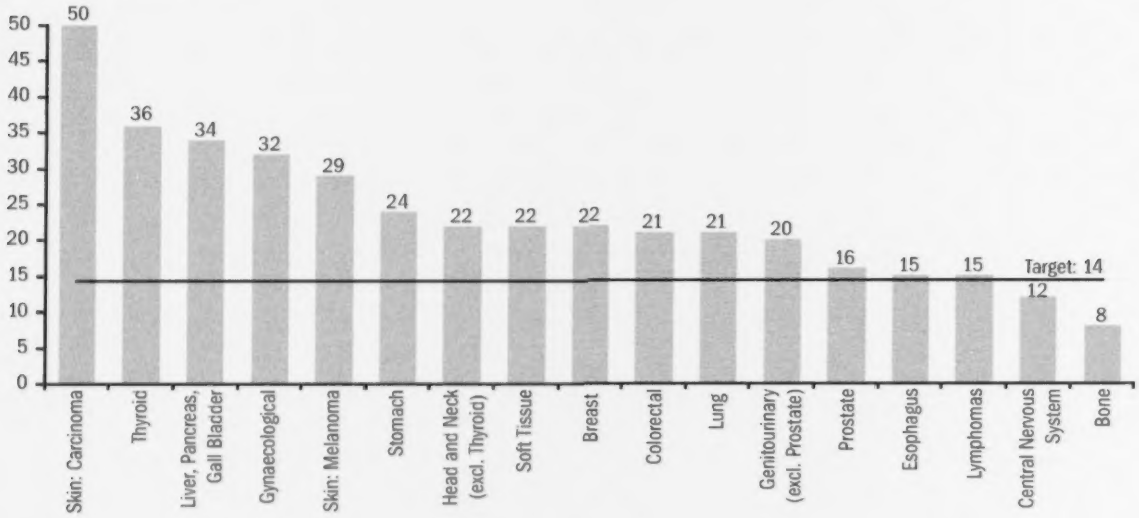
- Seventy-two percent of urgent thyroid patients received their consultations within the wait-time target. The 90th percentile wait time was 31 days—three times longer than the target. This means that 10% of patients waited longer than 31 days, and 90% waited some amount of time under 31 days.
- Sixty-three percent of urgent gynaecological patients received their consultations within the wait-time target. The 90th percentile wait time was 27 days—two and a half times longer than the target. This means that 10% of patients waited longer than 27 days, and 90% waited some amount of time under 27 days.

Information provided to us by CCO showed that more than 55,000 cancer surgeries were performed in Ontario in 2016/17. CCO collects wait-time data for these surgeries. The provincial wait-time targets stipulate that 90% of all cancer surgeries should be completed within 14 days for urgent cases. CCO informed us that many factors can affect a hospital's ability to meet wait-time targets, including availability of operating rooms, wait time for surgical preparations, such as MRIs and CT scans, and the complexity of patients' conditions (see **Section 4.5**).

We analyzed the 2016/17 wait-time data by types of cancer surgery from urgent to non-urgent, and noted that:

Figure 5: Wait Times for Urgent Cancer Surgery by Types of Cancer, 2016/17 (Days)

Source of data: Cancer Care Ontario



Note: Wait times measured as the maximum amount of time in which nine of 10 patients have their surgeries.

- Urgent surgeries for 15 out of 17 types of cancer did not meet the 14-day wait-time target (see **Figure 5**).
- The more urgent the surgery, the less likely it was to be performed within the wait-time targets (see **Figure 6**). Cancer surgeries with the worst wait-time performance were thyroid, head and neck, and prostate, which did not meet the wait-time targets at both the urgent and non-urgent levels.

4.2.2 Wait Times for Urgent Surgery Varied among Hospitals

The wait time for cancer surgery depends on the hospital and surgeon to which the patient is referred. We found that wait times varied among hospitals, resulting in inequitable access to cancer surgeries across the province.

We analyzed the 2016/17 wait-time data by LHIN, and noted significant wait-time variations by LHIN. For example, the 90th percentile wait times for urgent gynaecological cancer surgery ranged from 12 days at South East LHIN to 74 days at Central West LHIN, compared to the wait-time target of 14 days (see **Figure 7**).

We also noted that hospitals located near each other had significant wait-time differences. For example, the difference in the 90th percentile wait times for urgent breast cancer surgeries between two hospitals just 15 kilometres apart was 30 days (14 days at one hospital and 44 at the other) when the Ministry's wait-time target was 14 days.

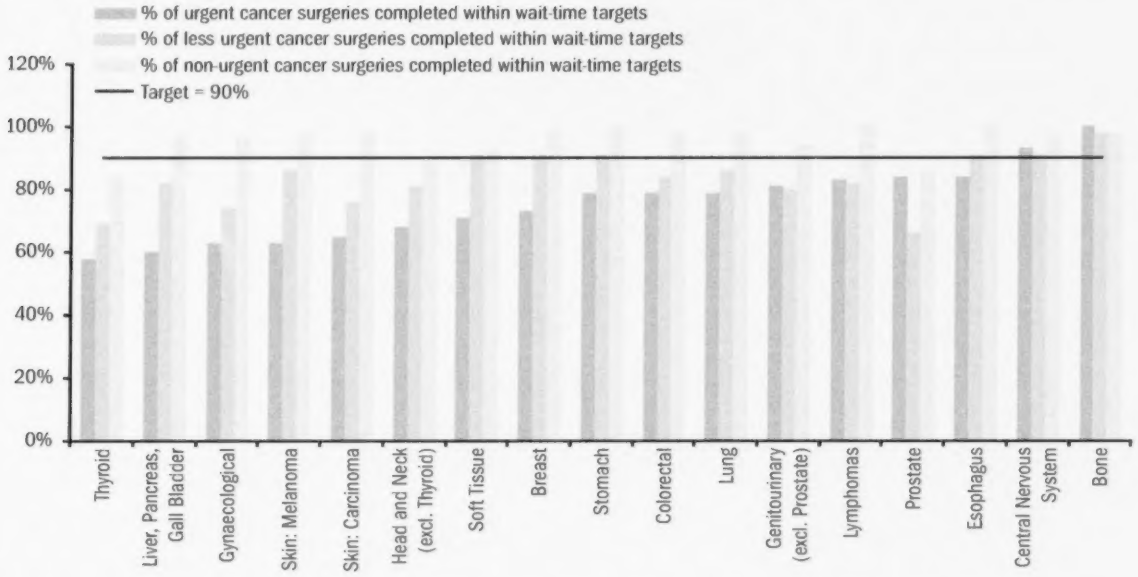
While some regions have implemented a central referral and booking service for some cancer surgeries in an effort to improve wait times and access, this service is not consistently available for all cancer surgeries at all the LHINs; where central referral and booking service is not available, individual surgeons and hospitals have to manage their own wait lists.

RECOMMENDATION 2

To better ensure patients have timely and equitable access to cancer surgery, we recommend that Cancer Care Ontario work with the Ministry of Health and Long-Term Care and hospitals to:

Figure 6: Comparison by Urgency of Percentages of Cancer Surgeries Completed within Wait-Time Targets, 2016/17

Source of data: Cancer Care Ontario



Note: Our analysis did not include emergency cases because 99% of cancer surgeries performed in 2016/17 were urgent, less urgent or non-urgent.

- analyze the reasons for delays in scheduling surgical consultations and performing urgent cancer surgeries;
- take corrective action to reduce wait times for surgical consultations and cancer surgeries; and
- assess the benefits of having a centralized referral and booking process for cancer surgeries.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees with this recommendation and is working with Regional Cancer Program partners to continue to reduce cancer surgery wait times.

Cancer Care Ontario reviews hospital performance on a monthly/quarterly basis to identify reasons for delay and develop targeted solutions to reduce wait times. Overall, the Province is performing well on wait-time targets for cancer surgery. In the first quarter of 2017/18, 89% of all non-emergency cancer surgeries were performed within set targets, and wait times for urgent surgeries were 81% (that is, within two weeks of consultation). Cancer Care Ontario recognizes there are both regional and disease-type variations in wait times, and will continue to work with partner hospitals to reduce wait times.

Cancer Care Ontario will continue to investigate the reasons for delays in surgical consultations and urgent cancer surgeries and consider improvement initiatives as appropriate. While priority targets provide guidance for surgeons to help triage patients in a standardized manner, ultimately surgeons must use their judgment to assign priorities based on the patient's symptoms, physical status as well as the status of the cancer.

Cancer Care Ontario is participating in the Pan-LHIN Referral Management Working

Figure 7: Wait-Time Variations by Type of Urgent Cancer Surgeries by LHIN, 2016/17
Source of data: Cancer Care Ontario

Type of Cancer Surgery	LHIN with the Longest Wait Time	Wait Time (Days)	LHIN with the Shortest Wait Time	Wait Time (Days)	Wait Time Difference (Days)
Skin: Carcinoma	Central East	82	Central	17	65
Gynaecological	Central West	74	South East	12	62
Genitourinary (excl. Prostate)	North Simcoe Muskoka	58	Toronto Central	6	52
Skin: Melanoma	Central East	40	Waterloo Wellington	12	28
Colorectal	North West	40	Central West Toronto Central	14	26
Lung	Mississauga Halton	36	North East	11	25
Breast	South East	35	North East	12	23
Stomach	Mississauga Halton	47	Hamilton Niagara Haldimand Brant	24	23
Head and Neck (excl. Thyroid)	Centre East	37	Toronto Central	17	20
Central Nervous System	Mississauga Halton	17	Erie St.Clair	3	14
Liver, Pancreas, Gall Bladder	South West	46	Hamilton Niagara Haldimand Brant	33	13

Note: Some types of cancer did not have a significant volume of urgent surgeries performed in 2016/17.

Group, which has been mandated by the Ministry to develop a province-wide eReferral strategy. As part of this initiative, Cancer Care Ontario will assess the benefits of a centralized referral and booking process for cancer surgeries.

4.3 Cancer Drug Therapy

Oncologists, in consultation with patients, decide which cancer therapy best suits the patient based on the oncologist's medical judgment, clinical practice guidelines and the patient's medical circumstances. A patient may decline a drug recommended by the oncologist in favour of a different one because the recommended drug may be difficult to administer or has worse side effects or there is a lack of funding from the Province. Ontarians can receive cancer drug therapy through different ways:

- Take-home cancer drugs are administered at home, usually orally; however, some are given by intramuscular (into the muscle) or subcutaneous (under the skin) injection, or topically (on the skin).
- In-hospital cancer drugs are administered at hospital out-patient clinics by nurses with oncology training through intravenous (IV) drip or injection.
- In-hospital cancer drugs administered for patients in hospital rooms can be oral or by injection.

In most instances, patients do not have a choice between in-hospital and take-home cancer drugs. Very few in-hospital injectable cancer drugs offer take-home substitutes in oral or topical form. Similarly, many take-home drugs do not come in IV or injectable form. Some cancer drug treatments contain a combination of medication involving oral therapy and injection.

Eligible Ontarians can receive their cancer drug coverage through various programs, including the Ontario Drug Benefit Program (see **Section 2.3**). There are several categories of financial support, including the Trillium Drug Program (Trillium), for patients eligible for the Ontario Drug Benefit

Program. Trillium is for patients with high drug costs relative to their income. For those patients who have private insurance or can pay out-of-pocket for their drugs, which can be as high as $126,000 per year for patients using standard doses, they may not need to apply for Trillium.

4.3.1 Take-Home Cancer Drug Patients Experience Inequities

Ontarians who qualify for OHIP and need outpatient intravenous cancer drug treatments at the hospitals may receive full coverage under the Ministry's New Drug Funding Program (NDFP). Although take-home cancer drugs are funded through the Ontario Drug Benefit Program in the same way that drugs are covered for other diseases, we noted that some cancer patients requiring take-home cancer drugs experience inequities.

Some patients requiring take-home cancer drugs have to go through the Trillium application process in order to obtain funding from the Ontario Drug Benefit Program. For drugs not on the Ontario Drug Benefit formulary, such as some take-home cancer drugs, physicians or nurse practitioners must also apply for Ministry approval through the case-by-case review process under the Exceptional Access Program (EAP) to ensure that clinical criteria are met before funding is granted. In comparison, all patients requiring approved in-hospital cancer drugs do not have to go through such processes.

Our analysis of CCO data for 2015/16 indicated that 47% of cancer patients were given take-home drugs, but this number is expected to increase in the future because 60% of all new cancer drug treatments currently under development are oral drugs.

Through the Ontario Drug Benefit Program, the cost of take-home drugs is covered for patients aged 65 or older, receiving social assistance benefits (through the Ontario Disability Support Program and Ontario Works), living in a home for special care or a long-term-care home, or receiving professional home and community care services. These patients pay an average of $50 or less per year of total costs for their treatments. The Province also covers, through Trillium, the cost of take-home cancer drugs for patients under the age of 65 with high drug costs relative to their incomes. About 1,200, or 12%, of patients who are eligible for the Ontario Drug Benefit Program and require take-home cancer drugs receive benefits through Trillium. These patients pay an income-based deductible, which is about 4% of their annual household income. Ontarians who do not receive public benefits under any of these categories have to pay out-of-pocket the costs of cancer drugs taken at home, unless they have private health-care insurance coverage.

In comparison, the Western provinces and the territories—British Columbia, Alberta, Saskatchewan, Manitoba, the Northwest Territories, Nunavut and the Yukon—provide full coverage of all publicly funded cancer drugs for all patients no matter whether their drugs are administered in hospital or taken at home. There is no application process required for patients in these regions regardless of their drug costs and their income level.

As mentioned above, no application for the Ontario Drug Benefit Program is required for many Ontarians—seniors, people receiving social assistance benefits, living in a home for special care or a long-term-care home, or receiving professional home and community care services. However, individuals who are younger than 65 and have high drug costs relative to their household income must apply for Trillium, which is a lengthy process as discussed in **Section 4.3.2**.

The Ministry informed us that a patient's condition meeting criteria based on evidence is a consistent requirement for both intravenous and take-home cancer drugs across Canada. The Ministry also informed us that although coverage may be available in other provinces, these provinces may not be the fastest to begin funding a take-home cancer drug, following national clinical reviews and negotiations.

4.3.2 Processes for Exceptional Access Program and Trillium Drug Program Need Improvement

Ontarians who qualify for OHIP have access to cancer drugs on the Ontario Drug Benefit formulary without application or eligibility assessment when a prescription is presented at a pharmacy. Cancer patients who do not qualify for the Ontario Drug Benefit Program and need financial support can apply for the Trillium Drug Program (Trillium), which requires proof of annual household income to determine the coverage and deductible. As part of the Trillium application, patients must submit documentation on household income or provide authorization to validate household income with the Canada Revenue Agency.

In addition, Ontarians requiring many take-home cancer drugs, or other drugs that are not available on the Ontario Drug Benefit formulary, must have their physicians or nurse practitioners apply for authorization through EAP to ensure that these drugs are appropriately funded based on evidence-based clinical criteria. Meeting evidence-based clinical criteria is also required for intravenous drugs provided through the Ministry's New Drug Funding Program and used in hospital outpatient clinics. To access an EAP drug, the patient's physician or nurse practitioner submits a request to the Ministry with clinical information to support using the requested drugs. This process is done manually by fax, and any renewals require clinical information regarding the ongoing benefit of the drug from the physician or nurse practitioner. If the same drug is used for a patient who has been admitted to hospital, the physician or nurse practitioner can prescribe the drug directly without going through the EAP process.

Our survey of hospitals shows that while the majority of regional cancer centres have dedicated personnel to assist patients with Trillium applications, 44% of community hospitals surveyed do not. About 7% of community hospitals that participated in our survey indicated that they use pharmacists to help with the EAP requests and/or Trillium applications, which in turn reduced the time the pharmacists were available for clinical work.

Based on our review of 2015/16 data provided by the Ministry, we noted long turnaround times for both EAP requests and Trillium applications. We found that the Ministry's processing times are measured in business days, not calendar days. Considering that cancer treatment is most effective the earlier that it begins, we view calendar days as a more timely measurement and see more benefit to cancer patients by including weekends and holidays in processing times. We also found that:

- The processing-time target for EAP related to cancer medication is three business days. However, actual processing times were almost three times longer—an average of about nine business days—equivalent to about two weeks when considering calendar days. In fact, 87% of respondents in our survey of hospitals indicated that processing times could be shortened. We also noted that 22% of EAP requests in 2015/16 required the physicians or nurse practitioners to submit additional information due to incomplete information in the earlier requests. EAP typically approves requests for take-home cancer drugs for one year. Renewal of funding is granted if the drug continues to be effective. Physicians or nurse practitioners prescribing these drugs have to renew the EAP requests for their patients in order to confirm whether there is continued benefit or toxicities from the treatment.
- The processing-time targets for Trillium measure the time from the date the Ministry receives the application to the date the application is reviewed. It does not measure the overall time between receipt of the application and when a decision is made. For 2015/16, 24% of all Trillium applications were required to submit additional information to proceed. When we took that into account, the overall turnaround time, from the date the Ministry received a new application to the date the household was enrolled was 19 business

Figure 8: Exceptional Access Program (EAP) Cancer Drugs with the Highest Government Spending through the Trillium Drug Program, 2015/16

Source of data: Ministry of Health and Long-Term Care

Drug Name	Cancer Type	Approximate Annual Cost of Standard Dose[1] ($)	Avg. Cost Covered by Ministry for a Standard Dose[2] ($)	% of Drug Cost Covered by Trillium
Pomalidomide	Multiple Myeloma	126,000	124,740	99
Lenalidomide	Multiple Myeloma and Bone Marrow	99,000	96,030	97
Everolimus	Various	73,000	70,810	97
Sunitinib	Various	68,000	65,280	96
Ruxolitinib	Bone Marrow	61,000	59,780	98
Dasatinib	Leukemia	60,000	57,000	95
Nilotinib	Leukemia	51,000	48,960	96
Abiraterone	Prostate	43,000	41,710	97

1. Cost does not include professional fees or mark-ups, and is based on the approximate wholesale cost of the drug at standard dose(s) used for the cancer condition.
2. The percentage of the cost of standard dose paid by the Ministry is calculated using average annual expenditures for each drug. Annual expenditure is defined as the average cost actually paid by the Ministry's Trillium Drug Program per recipient.

days on average—equivalent to about one month when considering calendar days. In addition, patients have to update their Trillium enrolment information annually in order to confirm their household income and continued eligibility. If they have given Trillium access to their CRA information, this can occur automatically.

Our survey results showed that each Ontario oncologist surveyed spent an average of 3½ hours a week on paperwork for EAP requests—time that they could have used to see an average of seven more patients a week.

In addition, 69% of respondents to our survey indicated that the EAP process should be simplified, and 76% said the frequency of requests for renewing EAP coverage should be reduced.

We also questioned the rationale for making patients and their physicians or nurse practitioners go through the lengthy and manual Trillium and EAP processes when the majority of them were approved in the end anyway and were covered for almost the entire drug cost. In 2015/16, EAP received over 8,100 requests for cancer drugs, and only about 5% of the requests were rejected by the Ministry.

Figure 8 shows a summary of our analysis of the EAP cancer drugs with the highest government spending through Trillium. We noted that Trillium covered almost the entire drug costs, ranging from 95% to 99%.

RECOMMENDATION 3

To better ensure patients have equitable and timely access to the cancer drugs they need, we recommend that the Ministry of Health and Long-Term Care work with Cancer Care Ontario to:

- evaluate the operational efficiency of financial-support programs for cancer drugs; and
- simplify and streamline the request and application process for financial support for cancer drugs.

MINISTRY RESPONSE

The Ministry agrees that Ontarians should receive timely and equitable access to effective cancer therapies and that processes for both access and funding of costly drug therapies should be streamlined, efficient, and sustainable to effectively serve the public. The Ministry

accepts the recommendation to work on process improvements with its stakeholders and its agency, Cancer Care Ontario, to optimize the timeliness of decisions for cancer drugs and to ensure value for money.

Cancer drugs that are on the Ontario Drug Benefit (ODB) Formulary can be provided to ODB program recipients when a prescription is presented at a pharmacy. Other than meeting the ODB program eligibility, there is no assessment required for funding of these cancer drugs.

The Exceptional Access Program (EAP) oversees appropriate access to about 30 oral cancer treatments by applying a case-by-case review process to drugs that average about $75,000 per patient in annual costs. The Ministry continues to modernize and optimize EAP's manual processes for case-by-case assessment of requests through technology solutions, streamlining initiatives, and enhancing criteria transparency. The Special Authorization Digital Information Exchange (SADIE) system will be launched in 2018, offering an online digital service for prescribers to research, submit, and manage requests to the EAP. SADIE is expected to have the capability to provide real-time responses for many EAP drugs and indications and to improve the timeliness of decisions for drug access.

The Trillium Drug Program (Trillium Program) is utilized by about 5% of recipients taking a publicly funded cancer drug and 11% of recipients of cancer drugs on the EAP list. The Ministry agrees with the recommendation that improvements and evaluation of the Trillium Program are necessary and work is under way to streamline processes by simplifying forms and instructions. The Ministry has been actively engaging with stakeholders to enhance understanding of this program that was launched to ensure that all Ontarians with high drug costs relative to their income would not face financial hardship and continues to work to improve enrolment timeliness and enhance the patient experience with the program.

4.3.3 Patients Getting Inadequate Supports for Proper and Safe Usage of Take-Home Drugs

Chemotherapy, which is a type of drug therapy, was traditionally administered to patients at hospitals by injection or intravenously. With the increase in availability of oral cancer drugs, more patients are now able to take these oral cancer drugs at home. In addition, as a result of the increase in effective oral cancer drugs, more patients are now being treated using daily or cyclic doses of self-administered oral cancer drugs at home. Patients using take-home cancer drugs should follow instructions for administration and safe handling of these drugs. For example, they may have to store cancer drugs separately from other medications or take the cancer drugs in a certain order with other medications.

However, cancer patients may not have adequate help to ensure that they use and handle the drugs properly. CCO's December 2014 think tank report, *Enhancing the Delivery of Take-Home Cancer Therapies in Ontario*, identified gaps in educating take-home cancer drug patients, particularly in the areas of providing guidance on the safe handling, disposal, drug interactions and how to deal with missed doses.

In addition, 89% of hospitals that responded to our survey did not have standardized full-day educational sessions for patients starting take-home cancer drugs. Cancer patients may not know what to do when they miss a treatment, take the medication late, or vomit right after taking it. As well, only 11% of hospitals we surveyed had programs to call patients to check on them and answer questions on all cancer drug-related side effects.

In comparison, all patients in other provinces, such as Alberta and Newfoundland and Labrador, who start oral take-home cancer drugs are invited to a standardized educational session. Patients in Alberta, British Columbia, Saskatchewan and Newfoundland and Labrador also receive follow-up phone calls after commencing their medications.

Not All Pharmacists Dispensing Cancer Drugs Received Specialized Training

In Ontario, any pharmacist at any pharmacy can dispense cancer drugs. The Ministry informed us that oncology pharmacotherapy and therapeutics are only taught as part of the Ontario university pharmacy program to prepare students to be practitioners in this area. There is currently no mandatory specialized oncology training for practising pharmacists who dispense take-home cancer drugs.

In comparison, Alberta allows only designated pharmacies, with pharmacists who have received specialized cancer-drug-therapy training and are familiar with normal dosages, to dispense these medications.

The Ministry informed us that the competence of pharmacists and pharmacy technicians is regulated by the Ontario College of Pharmacists, whose responsibility it is to maintain professional standards among pharmacists.

According to a 2013 survey published in the Journal of Oncology Pharmacy Practice, only 24% of community pharmacists were familiar with the common doses for oral anti-cancer drugs, and only 9% felt comfortable educating patients about these medications. A 2015 report by the Institute for Safe Medication Practices Canada said the lack of specialized training in oral take-home cancer drugs among community pharmacists contributed to dosage errors. For example, patients sometimes need to adjust dosage during their treatment by taking a different strength of pill. The adjustment could be complicated, and some pharmacists may not be familiar with the criteria of dosage adjustment.

In addition, as noted in the *Recommendations for the Safe Use and Handling of Oral Anti-Cancer Drugs in Community Pharmacy: A Pan-Canadian Consensus Guideline*, produced by the Canadian Association of Provincial Cancer Agencies and CCO, community pharmacies may have limited training related to cancer treatment and little exposure to cancer drugs due to low dispensing volumes. As a result, it is recommended that cancer drug prescriptions be reviewed by a pharmacist with both experience and training in cancer treatment.

CCO took some actions in 2016 to address concerns about patient safety regarding the use of take-home cancer drugs, but the effectiveness of such actions has yet to be seen.

For example, CCO collaborated with the University of Toronto to offer training to pharmacists caring for cancer patients, including those with take-home oncology drugs—but this training is not mandatory. CCO's analysis of 2013/14 data showed that about 88% of all take-home cancer drug prescriptions were dispensed by community pharmacies. As of the end of 2016, only about 1.5% of all pharmacists in Ontario had taken the course, even though 53% of the province's pharmacies dispensed cancer drugs that year.

RECOMMENDATION 4

To better ensure cancer drugs are used by patients safely at home, we recommend that Cancer Care Ontario work with the Ontario College of Pharmacists, the Ministry of Health and Long-Term Care, and hospitals to:

- establish education programs for cancer patients on safe usage and handling of take-home cancer drugs and monitoring programs to assist cancer patients on adhering to proper use of oral cancer drug therapy at home; and
- evaluate whether to require that pharmacists who dispense cancer drugs receive specialized cancer-drug-therapy training and are familiar with cancer therapy regimens, including oral cancer drug regimens.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees with this recommendation and has been developing several initiatives to support cancer patients in the safe use of at-home cancer drugs.

Cancer Care Ontario, in partnership with the de Souza Institute, has developed two online education programs. One is a teaching tool to assist health-care providers in the assessment

and education of patients receiving at-home cancer drugs to ensure that patients understand their treatment and the importance of taking it as prescribed. The second tool teaches patients how to safely handle at-home cancer drugs and promotes adherence in the home/non-acute care setting. In addition, Cancer Care Ontario is supporting Regional Cancer Program initiatives to increase access to an oncology provider who patients can call if they have concerns or questions. Some regional cancer centres have introduced follow-up programs to call, monitor and support patients at home.

Cancer Care Ontario also collaborated with the University of Toronto to develop training courses for pharmacists who dispense chemotherapy drugs, including take-home cancer drugs.

Finally, in 2017, Cancer Care Ontario established the Oncology Pharmacy Task Force, which is developing recommendations to ensure the safe and appropriate use of take-home cancer drugs. Part of this work will be to develop best practice recommendations for pharmacists who dispense take-home cancer drugs. The task force's report (to be submitted to the Ministry by March 2018) may recommend standardized specialized cancer-drug-therapy training for pharmacists. If so, Cancer Care Ontario would support making such training mandatory.

MINISTRY RESPONSE

The Ministry supports this recommendation and agrees that patients on take-home cancer drugs can be well-served by health-care professionals who are confident in providing good quality care, education and monitoring with the goal to optimize the benefits of therapy for patients.

The Ministry recognizes that it is part of the pharmacist's responsibilities to ensure the safe use and handling of any medication, and that the right patient receives the right medication as prescribed in the appropriate doses. The pharmacist also has the responsibility to educate the patient regarding the appropriate use of drugs. The competency of pharmacists is regulated by the Ontario College of Pharmacists (College), whose responsibilities include maintaining professional standards among pharmacists and holding pharmacists accountable to the established legislation and standards of practice of the profession.

The Ministry supports the recommendation that CCO work with the College to establish standards and training for pharmacists to deliver quality services on dispensing, counselling, and safe handling of take-home cancer medications. As appropriate, CCO should work with the Ministry and hospitals to help support its work with the College.

4.3.4 No Oversight of Cancer Drug Therapy Provided at Private Specialty Clinics

Private specialty clinics can offer services including cancer drug infusion therapy to patients who are willing to pay out-of-pocket and/or through private insurance coverage; however, many of them are not regulated or licensed by the Ministry or CCO. Therefore, they are not subject to the same level of oversight and standards as hospitals when providing cancer drug therapy. This can put patient safety at risk and affect quality of care.

Ontario regulates out-of-hospital premises where procedures are performed under various forms of anaesthesia and sedation. Ontario also licenses and regulates Independent Health Facilities, which perform surgical, therapeutic and diagnostic procedures that are funded by OHIP. While some private specialty clinics may be regulated under one of these categories, many specialty private clinics do not fall under either category.

In Canada, each province decides the medical circumstances under which it will fund usage of intravenous cancer drugs approved by Health Canada—especially for drugs used to treat more than one type of cancer. For example, Bevacizumab is

covered for treating colorectal cancer but not brain cancer in Ontario, while it is covered for both cancers in British Columbia, Saskatchewan, Manitoba and Newfoundland and Labrador.

If patients need an intravenous cancer drug that is not funded by OHIP but has been approved as safe by Health Canada—for example, Bevacizumab for brain cancer treatment—their oncologist will sometimes refer them to a private specialty clinic. However, patients must be willing to pay out-of-pocket and/or have private insurance coverage. While the Ministry does not provide operating funding to these private specialty clinics, physicians working in these clinics receive professional fees from OHIP for providing services to patients.

In 2015/16, OHIP was billed by 105 physicians for about $1.4 million, covering approximately 20,000 cancer drugs and therapies delivered in private specialty clinics or in physician offices. Since Ontario has no specific legislation that regulates private health clinics or requires them to be licensed, the Ministry does not have any information on their operations, such as the number of clinics, their location, the types of services they provide, or their performance.

CCO requires facilities providing cancer drug therapy to have an onsite emergency department, but this requirement does not apply to private specialty clinics, because they are not regulated by the Ministry or CCO. In addition, there is no legal requirement that private specialty clinics use oncologists or nurses specialized in oncology to provide care. Cancer services at private specialty clinics may be provided by physicians and nurses with no specialized cancer training.

No other provinces regulate private health clinics in their jurisdictions either. However, Alberta has legislation that provides for accreditation of a wider range of health facilities, and its College of Physicians and Surgeons has the authority to inspect both accredited and non-accredited medical facilities.

The College of Physicians and Surgeons of Ontario (College) inspects out-of-hospital premises and conducts assessments of Independent Health Facilities with a focus on the delivery of surgical, therapeutic and diagnostic procedures, as well as procedures performed under various forms of anaesthesia and sedation. However, the College does not have the authority to inspect or assess the delivery of cancer drug therapy at private specialty clinics.

RECOMMENDATION 5

To help ensure cancer patients receive safe cancer drug therapy, we recommend that the Ministry of Health and Long-Term Care:

- work with Cancer Care Ontario to evaluate the need to set standards and oversee delivery of cancer drug therapy at private specialty clinics; and
- work with the College of Physicians and Surgeons of Ontario to evaluate the feasibility to include cancer drug therapy treatments in its inspections on private specialty clinics.

MINISTRY RESPONSE

The Ministry is currently moving forward with legislation that aims to include Independent Health Facilities, Out of Hospitals and Energy Applying and Detecting Medical Devices under a single regulatory framework that would, in part, create the flexibility to enable new facilities to be added to the legislative regime in the future. The new legislation will ensure access to quality services in community health facilities, like clinics that perform chemotherapy infusions, regardless of whether they are publicly or privately funded, by introducing new quality assurance measures and standards to ensure patient safety and the delivery of quality of care.

To bring private infusion clinics under the Community Health Facilities (CHF) regime, a regulation would have to be passed identifying infusion clinics or their services as CHF services for the purposes of making them subject to the legislation. In addition, an inspection body

would be identified to develop standards, hire inspectors, conduct inspections, prepare inspection reports and ensure compliance with quality and safety standards.

The Ministry will work with Cancer Care Ontario, the Ontario College of Pharmacists, the College of Physicians and Surgeons of Ontario and other stakeholders and experts to evaluate the need to create and enforce standards in cancer drug therapy clinics.

4.3.5 Recommendations to Address Under-Dosing Incident Not Fully Implemented

In March 2013, four hospitals in Ontario informed about 1,000 of their cancer patients that they had received lower-than-intended doses of two cancer drugs during their intravenous chemotherapies. The under-dosing was estimated at 10% and 7% for cyclophosphamide and gemcitabine, respectively.

The Ministry subsequently conducted a review of the province's cancer-drug supply system that concluded the incident was the result of significant inadequacies in the communication and implementation of drug specifications and preparations.

In response to the review, the *Safeguarding Health Care Integrity Act, 2014* (Act) was passed in 2014. The Act allows the Ontario College of Pharmacists to inspect and license hospital pharmacies in the province to ensure compliance with standards.

The Ministry review also included 12 recommendations to address the root cause of the incident and to prevent similar problems in future. While most of the recommendations have been addressed, we noted that one —to ensure traceability of computer-based clinic and hospital records for patients and their treatments—remains a concern according to the College's 2016 inspections.

RECOMMENDATION 6

To better ensure cancer patients receive safe and accurate doses of cancer drugs, we recommend that the Ministry of Health and Long-Term Care (Ministry) work with the Ontario College of Pharmacists and hospitals to implement the remaining recommendations from the Ministry's review of the provincial cancer-drug-supply system, especially to address inadequacies in communication and implementation of drug specifications and preparations.

MINISTRY RESPONSE

The Ministry accepts this recommendation and will work with the College of Pharmacists and hospitals to implement the remaining recommendations from the Ministry's review of the provincial cancer-drug-supply system.

4.3.6 Provincial Process to Manage Cancer Drug Shortages Needs Improvement

Shortages of drugs, including cancer drugs, have become a global issue. Causes include contamination of raw materials, production delays, recalls, or production limits imposed by drug manufacturers. There have been at least three cancer drug shortages in Canada since 2014.

In April 2014, the common cancer drug Paclitaxel became scarce after Health Canada suspended a manufacturer for violations of standards. In fall 2014, manufacturing problems at two different pharmaceutical companies led to a shortage of the drug Bacillus Calmette-Guerin, used to treat bladder cancer. And in March 2017, a shortage developed of the drug 5-fluorouracil, used in a large number of cancer treatments, after Health Canada quarantined products made by its main supplier for possible damaged or leaking vials.

In June 2016, Health Canada introduced regulations for mandatory public reporting of drug shortages by manufacturers. Drug makers are now required to publicly provide six months' advance notice for anticipated drug shortages or discontinuations, and five days' public notice of unanticipated shortages.

However, Ontario has established no clear provincial protocol or guideline that hospitals, CCO or the Ministry can use to manage drug shortages. Specifically, we found that:

- Nearly 78% of hospitals that responded to our survey indicated that the Ministry, LHINs and CCO should more actively provide help and guidance to hospitals during cancer-drug shortages. Another 84% said there should be a provincial lead to facilitate drug-sharing during shortages.
- Hospitals are responsible for contacting suppliers and other hospitals in their local areas to borrow drugs. While the Ministry informed us that LHINs are supporting local communication among hospitals and hospital pharmacies, we noted that there is no provincial network connecting all hospital pharmacies in Ontario to facilitate communication with each other. Nearly 88% of hospitals that responded to our survey indicated that there would be benefits to having a province-wide platform or network connecting all hospital pharmacies to facilitate sharing of drug inventory and information about shortages.
- While the Ministry, CCO and the LHINs have collaborated during drug shortages, individual physicians are ultimately responsible for deciding, based on published clinical guidelines and patient conditions, whether to prescribe an alternative drug or suspend treatment until the shortage ends. Our hospital survey showed that during the 2017 shortage of 5-fluorouracil, oncologists at 16% of hospitals prescribed other drugs.
- Neither the Ministry nor CCO have policies on the appropriate level of cancer-drug inventory that hospitals should keep on hand; inventory management of medications is the responsibility of individual hospitals. Our survey showed that 91% of hospitals had no formal written policies on maintaining minimum inventory levels for all cancer drugs. Instead, inventories were based on actual usage, and replenished only when they ran low.

RECOMMENDATION 7

To help ensure a stable and effective supply of cancer drugs, we recommend that Cancer Care Ontario work with the Ministry of Health and Long-Term Care and hospitals to:

- improve the process for sharing information on drug shortages and inventory; and
- establish a protocol for communication, drug-sharing and prioritizing patients in the event of a cancer-drug shortage.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees that cancer patients should have access to a stable and effective supply of cancer drugs.

Cancer Care Ontario currently maintains a web-based platform (collaboration site) for hospital pharmacies to share information on cancer drug shortages and inventory. Cancer Care Ontario will work with cancer treatment centres to promote more consistent use of the platform.

CCO will work with the Ministry to support the management of cancer-related shortages—such as clinical guidance, including therapeutic alternatives, and possible prioritization approaches.

MINISTRY RESPONSE

Drug shortages have become a common issue in Ontario, across Canada, and globally, and they have the ability to significantly impact patients. The Ministry and Cancer Care Ontario support this recommendation to enhance and improve collaborations with our health partners, to build a proactive and responsive provincial framework that optimizes timely escalations, responses and solutions to anticipated cancer drug shortages to avoid or minimize patient impacts.

The Ministry recognizes that more work is needed to establish a protocol that optimizes communication, supply sharing, and stakeholder compliance and responsiveness in the event of a cancer-drug shortage. Although the Ministry implemented the Ontario Drug Stock Monitoring System in 2014 to help health systems co-ordinate information with respect to reporting shortage information and has taken an active leadership role to regularly engage with its provincial health partners—Cancer Care Ontario, Local Health Integration Networks, Group Purchasing Organizations, pharmacy associations, government divisions, clinician advisory groups, and pharmacy manufacturers—about reported shortages, it is recognized that there are opportunities to improve this oversight.

Consultations are under way with stakeholders provincially and nationally aimed at building a better understanding of the current identification and response processes for drug shortages and gathering input on options for improvements. Based on these consultations, the Ministry will be working with its health-system partners to implement information-sharing enhancements starting in 2018.

4.4 Specialized Cancer Treatment and Supportive Services

4.4.1 Capacity for Stem Cell Transplants Inadequate to Meet Need

Inadequate capacity for stem cell transplants has been raised as an issue in Ontario since 2009, but the Ministry did not approve any capital projects to expand transplant programs in Ontario until 2016/17.

Stem cell transplants replace blood-forming cells damaged by cancer or by radiation or chemotherapy with healthy stem cells. There are two main types of stem cell transplants:

- Autologous transplants use stem cells previously taken from patients when they were in good health and stored until needed. These transplants help recovery from high dose chemotherapy that is used to treat the underlying illness.
- Allogenic transplants use stem cells from a donor, either a blood-related family member or an unrelated person, that match the patient's own cells. These transplants give patients a new immune system, which helps attack remaining cancerous cells.

Figure 9 lists the six hospitals in Ontario where stem cell transplants are performed. Only three are

Figure 9: Volume of Different Types of Stem Cell Transplants by Hospitals, 2016/17
Source of data: Cancer Care Ontario

			# of Stem Cell Transplants		
			Autologous Transplants (Using Patient's Own Stem Cells)	Allogenic Transplants (Using Cells From Donors)	
	Regional Cancer Centre	LHIN		Related Family Member Donor	Unrelated Donor
1	Princess Margaret Hospital	Toronto Central	300	57	70
2	Hamilton Health Sciences Centre	Hamilton Niagara Haldimand Brant	112	34	34
3	The Ottawa Hospital	Champlain	85	33	40
4	Kingston General Hospital	South East	55	–	–
5	London Health Sciences Centre	South West	56	13	–
6	Health Sciences North	North East	24	–	–
Total			**632**	**137**	**144**

equipped to perform all types of transplants. Over the last decade, advances in stem-cell matching and post-transplant care have resulted in more cancer patients eligible for transplants, particularly allogenic procedures.

In May 2015, clinical leaders of transplant centres wrote to the Ministry and CCO to declare a stem-cell crisis and a critical infrastructure shortage that affected the number of transplants they could perform. They said this led to growing wait lists, which resulted in patient relapses and deaths.

Lack of timely response by the Ministry and CCO between 2009 and 2015 to the growing demand for stem cell transplants, and delays in the launch of projects to expand capacity, led to excessive wait times, costly out-of-country transplants and poorer patient outcomes (see **Section 4.4.2**). **Figure 10** provides a timeline for stem cell transplant events from 2009 to 2017.

Between 2011/12 and 2015/16, the Ministry increased operational funding to transplant centres by $19 million, but we noted that this increase covered only the actual operational cost of performing transplants. It did not take into consideration the significant capital investment required to expand capacity—more laboratory facilities, for example, to handle the sophisticated stem-cell matching procedures required before transplants, and construction of negative-pressure rooms to protect patients from infection after transplants. As a result, the number of transplants that hospitals could perform has remained restricted.

The hospitals informed us that there had been no provincial strategy for expanding stem cell transplant capacity. They looked to CCO and the Ministry for direction on increasing provincial transplant capacity—but we found that CCO and the Ministry had differing explanations. CCO, for example, indicated that it was not involved because the Ministry funds hospitals directly for capital expansions, and hospitals are responsible for capital-expansion planning, not CCO. For its part, the Ministry informed us that it received no capital-funding requests from the hospitals relating to transplant-capacity expansions.

Figure 10: Timeline of Stem Cell Transplant Events, 2009–2017

Prepared by the Office of the Auditor General of Ontario

Year	Significant Events
2009	• CCO submits a report to the Ministry indicating a rapid increase in demand for transplants, and recommends immediate expansion of transplant programs.
2010	• CCO establishes a Stem Cell Transplant Steering Committee made up of hospital representatives, clinical experts, patient representatives and CCO program management
2011–2012	• Hospitals begin reporting transplant data to CCO showing few transplants done within wait-time targets. • In December 2011, CCO Stem Cell Transplant Steering Committee finds that capacity and funding limitations drove requests for costly out-of-country transplants between 2005 and 2010. It recommends that all adult transplants be done in Ontario and investment be made to build capacity in the province.
2012–2014	• Meeting minutes from CCO's Stem Cell Transplant Steering Committee indicate that hospitals repeatedly expressed concerns about capacity issues, increased demand and long wait times. • Transplant data continues to show that percentage of transplants performed within wait-time targets remain consistently low.
2015	• CCO and the Ministry receive a letter from clinical leaders at transplant centres declaring a stem cell crisis. • In response, CCO established a streamlined out-of-country referral process that began sending allogenic transplant patients to the United States. • Four hospitals submitted capital project requests to the Ministry beginning in December 2015.
2016–2017	• The Province continues to send more allogenic transplant patients to the United States. • The Ministry approves four capital projects to expand transplant programs in Ontario.

While inadequate capacity for stem cell transplants has been raised as an issue since 2009, the Ministry, CCO and hospitals only developed a capital-investment plan in 2016 to address the issue. For example, we noted that:

- The Ministry approved capital-expansion projects at three hospitals (Princess Margaret Hospital in Toronto, Hamilton Health Sciences and The Ottawa Hospital) in 2016, seven years after the transplant capacity concern was first raised in 2009. These projects were expected to be completed by 2019/20.
- Similarly, the Ministry in 2016 approved Sunnybrook Health Sciences Centre in Toronto to become a new transplant centre, seven years after CCO recommended it. Sunnybrook is expected to start doing transplants in 2020/21.

The four capital expansions approved in 2016 require further approvals for each phase of the projects. However, these subsequent approvals have been delayed even through the Ministry indicated that stem cell capital projects are its top priority.

Figure 11 shows the estimated capacity and demand for allogenic (donor) stem cell transplants. The capital projects approved by the Ministry at the time of our audit will not provide sufficient capacity to meet demand. Subsequent to our audit fieldwork, CCO informed us that the Ministry approved additional capital projects to address capacity concerns. However, capacity still will not meet demand in Ontario until after 2020/21.

Given the limited capacity for allogenic transplants in Ontario, Ontario has consistently performed fewer allogenic transplants per 10 million population than other jurisdictions (see **Figure 12**).

4.4.2 Long Wait Times for Stem Cell Transplants

Wait times for stem cell transplants have been consistently long since CCO began tracking them in 2011/12. CCO's Stem Cell Steering Committee, comprised of clinical experts, sets wait-time targets for stem cell transplants. For autologous transplants, wait time is measured from the start of cancer drug therapy to the date of transplant. For allogenic transplants, wait time is measured from the date a match is found to the date of transplant.

Figure 11: Estimated Capacity and Demand for Allogenic Stem Cell Transplants, 2015/16–2024/25
Source of data: Cancer Care Ontario

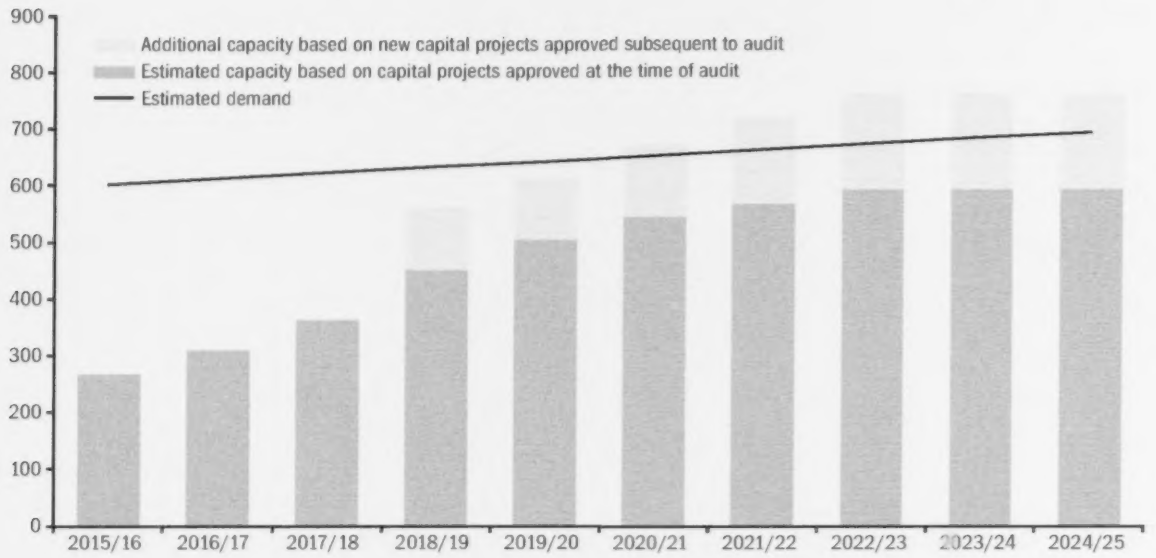
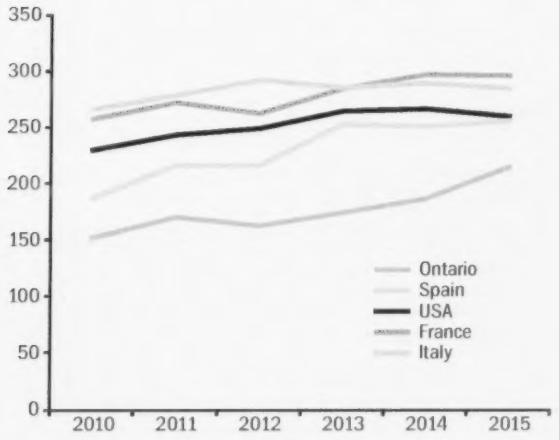


Figure 12: Allogenic Stem Cell Transplants per 10 Million Population, 2010–2015
Prepared by the Office of the Auditor General of Ontario



Note: Data drawn from CCO, the Hospital for Sick Children, the Centre for International Blood and Marrow Transplant Research (July 2016), and European Directorate for the Quality of Medicines (2016). Data for other Canadian jurisdictions is unavailable.

Based on our review of CCO wait-time data for 2015/16, we noted that the actual wait time for autologous transplants was over 1.5 times longer than the target wait time, and about half of these transplants met the wait-time target. We also noted that the actual wait time for allogenic transplants was almost seven times longer than the target wait time, and only 9% of them met the wait-time target (see **Figure 13**).

In addition, our review of wait-time data from 2011/12 to 2015/16 showed that the percentages of transplants that met CCO's wait-time targets have remained consistently low (see **Figure 14**).

CCO does not have information on the number of patients who relapsed or died while waiting for transplants, because it does not require hospitals to submit such information. However, our analysis of other information sources indicates that patients with long wait times for stem cell transplants appear to have poorer outcomes. For example, a group of physicians at one of the transplant centres performed a review of patients with acute myeloid leukemia who received allogenic stem cell transplants from January 2013 to September 2015. The review found that the patients experienced significant delays for transplants, leading to multiple hospital admissions, extra rounds of chemotherapy and associated complications. Eighty-two percent of the patients reviewed were exposed to one or more extra cycles of chemotherapy, some receiving up to four extra cycles. In total, 79 extra cycles of chemotherapy were provided at an estimated total cost of over $200,000.

In order to improve wait times for stem cell transplants in Ontario, CCO in 2015 streamlined the process for sending patients to the U.S. for allogenic transplants. Based on our analysis of out-of-country data, we found that:

- From April 2005 to September 2015, Ontario spent $7.5 million on 16 out-of-country allogenic transplants due to lack of capacity in the province.
- From October 2015 to June 2017, subsequent to CCO's streamlining of the out-of-country process, 65 patients were sent to the U.S. for allogenic transplants. The average cost of the procedure in the U.S. was $660,000, or almost five times higher than the average cost in Ontario ($128,000). At the time of our audit, the Ministry had already paid U.S. hospitals $35 million for 53 of these 65 patients, or about $28 million more than the cost of doing the transplant in Ontario if the capacity existed here. We estimated the cost of the remaining 12 patients to be $8 million, or $6 million more than it would have cost in Ontario.
- CCO projected that another 106 patients will be sent to the United States for transplants from July 2017 to the end of 2020/21. We estimated the cost of these transplants to be $70 million, or about $56 million more than it would cost to perform them in Ontario.

RECOMMENDATION 8

To better ensure the needs of cancer patients requiring stem cell transplants are met in a timely and equitable manner, we recommend

Figure 13: Wait Times for Stem Cell Transplants in Ontario, 2015/16

Source of data: Cancer Care Ontario

Types of Stem Cell Transplants	Volume	Target Wait Time (Days)	80th Percentile Wait Time (Days)[1]	80th Percentile Wait Time Longer than Target by:	% of Transplants That Met Target[2]
Autologous–multiple myeloma[3]	341	161	234	1.5 times	44
Autologous–lymphoma[4] and other cancers	64	203	359	1.8 times	56
Allogenic–related donors	112	42	285	6.8 times	9
Allogenic–unrelated donors	138	No Target	207	-	-

1. 80th percentile wait time means that 80% of patients waited some amount of time up to this number of days while the remaining 20% of patients waited more than this number of days.
2. Percentage completed within target is benchmarked against 80%.
3. Multiple myeloma is a cancer of plasma cells, a type of white blood cell that normally produces antibodies.
4. Lymphoma is a cancer of the lymphatic system, which is part of the body's immune system.

that the Ministry of Health and Long-Term Care work with Cancer Care Ontario and hospitals to assess the need for additional capital projects, and streamline and expedite the review and approval processes for capital funding to expand capacity for stem cell transplants in Ontario.

MINISTRY AND CANCER CARE ONTARIO RESPONSE

The Ministry and CCO have convened a consultation group composed of clinicians, administrators and patients and family representatives to assist the Ministry and CCO to plan for a multi-prong approach to increase stem cell transplant access and build in-province capacity. Consistent with this strategy, in the past two years, the Ministry has announced investments in capital funding for projects across five hospitals to expand stem cell transplant and acute leukemia capacity for patients. Cancer Care Ontario, hospitals and LHINs have worked closely with the Ministry to expedite the planning and construction of these projects. To ensure quality of the resulting patient-care facilities, compliance with health-care-space standards and prudent use of public funds, health service providers are required to undertake appropriate capital planning steps, which takes time.

4.4.3 Inadequate Symptom-Management Support for Cancer Patients

Cancer patients in Ontario have not received adequate symptom-management support, which is important to help those with less severe symptoms avoid unnecessary visits to hospital emergency rooms.

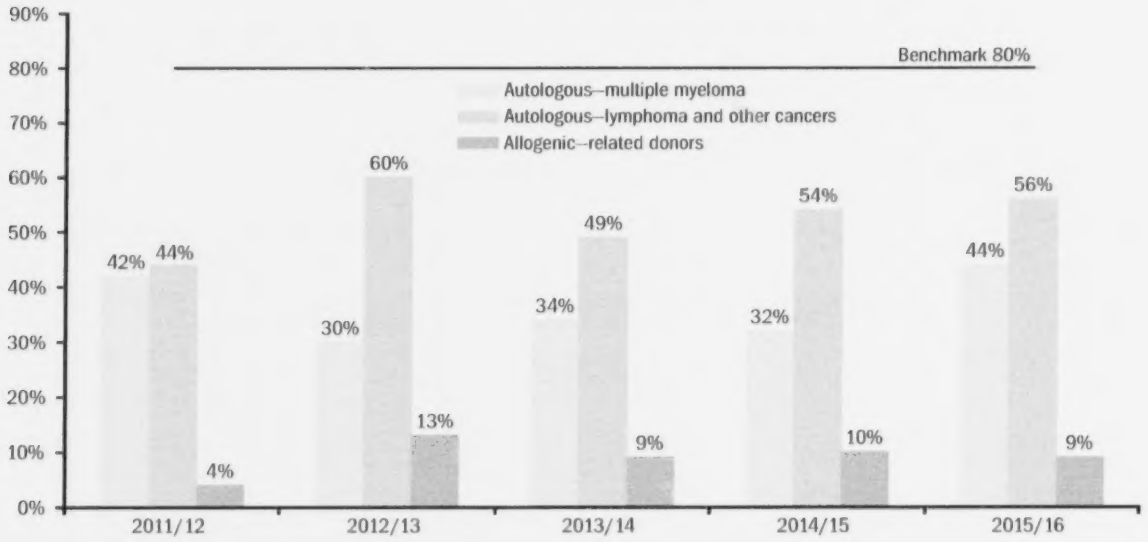
A 2013 study published by Cancer Quality Council of Ontario (CQCO) found that worsening symptoms contributed to increased emergency-room visits. However, a 2014 study by CCO found that breast-cancer patients whose symptoms were monitored went to emergency rooms 43% fewer times than historical rates.

CCO developed a symptom-management survey tool that patients could use to identify and report on their symptoms to their hospital cancer-care teams. However, we noted that:

- CCO data from 2016 indicates 61% of cancer patients used the CCO survey tool at least once per month, less than the target rate of 70%.
- According to a 2016 Symptom Management Patient Experience Survey, about one in three cancer patients using the tool to report symptoms indicated that their health-care teams did not discuss with them the symptoms they reported.

Figure 14: Percentage of Stem Cell Transplants That Met Wait-Time Targets, 2011/12–2015/16

Source of data: Cancer Care Ontario



Note: Since there is no wait-time target for unrelated-donor allogenic transplants, no analysis is possible.

We analyzed data published by CQCO between 2010 and 2014, and noted that 51% of lymphoma patients, 47% of colon-cancer patients who received in-hospital drug therapy, and 44% of breast-cancer patients visited hospital emergency rooms at least once during their treatments.

More than 35% of these patients visited emergency rooms a second time, and more than 15% went a third time. Between 2010 and 2014, the number of emergency-department visits by these patients also increased by 21%. However, 72% of them were discharged after receiving treatment in the emergency room because their symptoms did not warrant admission to hospital.

CCO indicated that emergency rooms are not the most appropriate care setting for support, treatment or management of less severe cancer-related side effects. Instead, patients could have been treated at other areas within hospitals, such as Urgent Care Centres (UCCs), where patients can be treated for less severe symptoms. However, we found the availability of UCCs and telephone hotlines for cancer patients varied among hospitals. For example:

- Only half of the 14 regional cancer centres even have UCCs to help cancer patients manage their symptoms.
- Ontarians have access to a registered nurse through Telehealth to get health advice or information over the phone 24 hours a day. However, Telehealth provides no oncology specialty to manage side effects of cancer treatment. Cancer patients are often directed to hospital emergency rooms for help, especially after hours, when the regional cancer centres and oncology clinics at community hospitals are closed.
- A pilot project at the regional cancer program of Central LHIN provided after-hours symptom-management support to cancer patients through a dedicated telephone hotline staffed by an oncology nurse. The pilot project, which ran from August 2016 to April 2017, received a total of 460 calls, and only 7% of these warranted emergency-room visits. A survey found that about 40% of callers would otherwise have made unnecessary

emergency-department visits, and 90% of callers reported that the hotline was helpful. Due to positive results, the pilot was subsequently expanded into a program covering 11 hospitals in five LHINs across the province. However, funding to continue this program after December 2017 was uncertain at the time of our audit.

We also found that Ontario lagged behind other jurisdictions with respect to symptom-management support. For example:

- Cancer Care Manitoba launched a UCC clinic and a centralized hotline for cancer patients in 2013. According to the Government of Manitoba, the clinic and the hotline helped avoid an estimated 13 hospitalizations and more than 100 emergency-room visits in its first few weeks of operation. In addition, average wait time at the UCC clinic was only 25 minutes, compared to an average of two hours at Manitoba emergency rooms.
- Johns Hopkins Hospital in Baltimore launched its UCC for cancer patients in 2014, and reported that hospitalizations of cancer patients subsequently dropped by 50%.

RECOMMENDATION 9

To better ensure cancer patients' symptoms are monitored, managed and treated properly and in a timely manner, we recommend that Cancer Care Ontario work with hospitals to assess symptom-management programs in other jurisdictions and determine whether similar programs can be implemented in Ontario to divert cancer patients from emergency rooms.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees with this recommendation and will continue to work to improve symptom-management programs for cancer patients across Ontario.

This work is aided by an electronic patient survey tool, which empowers patients to report their symptoms in real-time. The tool has been implemented in over 90 hospitals. Using this tool, to date 350,000 unique patients have been screened and 6.5 million assessments have been completed.

Cancer Care Ontario recognizes that more work needs to be done, however, and has highlighted the need for additional investments to adequately manage and properly treat patients' symptoms related to their cancer. A proposal has been submitted to the Ministry on this topic.

In 2014/15, Cancer Care Ontario completed scans of programs in other jurisdictions and is now working with researchers to determine an optimal model of care. Pending additional investment, Cancer Care Ontario will work with Regional Cancer Programs to spread and scale best practice initiatives (for example, 24/7 access to an oncology provider by phone or an urgent-care clinic within the cancer centre; home monitoring of symptoms; self-management support; and coaching). The aim is to decrease avoidable emergency department visits and unplanned admissions.

4.4.4 Insufficient and Inconsistent Psychosocial Oncology Services for Cancer Patients

Cancer patients in Ontario have not received sufficient psychosocial oncology services, which are provided by such specialists as psychiatrists, social workers, occupational therapists, physiotherapists, registered dietitians, psychologists and speech-language pathologists.

According to the Canadian Association of Psychosocial Oncology's *Standards of Psychosocial Health Services for Persons with Cancer and their Families*, all patients entering the cancer system require some level of psychosocial services. The Standards also say that about 35% to 40% of cancer patients require specialized intervention from psychosocial oncology professionals to manage symptoms or psychosocial distress. However, CCO

data indicated that in 2016/17, only 5.8% and 6.6% of cancer patients received consultations from dietitians and social workers, within the cancer centre, respectively.

Dietitian services are particularly important for head-and-neck-cancer patients, who are at high risk for malnutrition. Early intervention can minimize weight loss, reduce symptoms (such as nausea, vomiting and dry mouth) and reduce admission to hospital. CCO's clinical practice guidelines require that at least 80% of head-and-neck patients receive dietitian services within two weeks of starting cancer treatment. However, only 60% of these patients actually received the service.

We also found that psychosocial oncology services were not consistently available across the province, especially in terms of scope and level of service:

- **Scope of Service:** A 2016 CCO survey showed that more than half of the regional cancer centres did not have a dedicated psychiatrist, occupational therapist, psychologist, speech language pathologist or physiotherapist on site. Social workers and dietitians were the only psychosocial oncology providers consistently available at all regional cancer centres. Our analysis of actual 2015/16 expenditures found that regional cancer centres received $14.4 million from CCO for psychosocial services, but Ministry data showed that only $10.8 million was spent on those services.
- **Level of Service:** Psychosocial care can be administered along all phases of cancer, from screening, diagnosis and treatment, through to post-treatment and end-of-life care. However, the level of psychosocial services available varies from centre to centre based on funding, resources and local priorities. Our survey of regional cancer centres shows that 89% of them offered psychosocial services to patients at all stages of the cancer journey, including post-treatment and end-of-life stages. However, more than half (54%) of the other community hospitals we surveyed indicated that they mostly provided psychosocial services to cancer patients only at the treatment stage due to lack of funding and resources.

RECOMMENDATION 10

To help ensure cancer patients receive sufficient and consistent psychosocial services across the province, we recommend that Cancer Care Ontario work with hospitals to:

- develop and implement a long-term strategy to finance and expand psychosocial oncology services available to cancer patients; and
- establish provincial standards for the delivery of psychosocial services in Ontario.

MINISTRY AND CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees that psychosocial oncology (PSO) services are an essential component of care for cancer patients and their families, and we are continuing to work to improve access to these services.

PSO resources have been embedded in several funding models (for example, systemic treatment quality based procedure, stem cell transplant and acute leukemia) and will be included in future models developed by Cancer Care Ontario. However, Cancer Care Ontario recognizes that more resources are required. By March 2019, Cancer Care Ontario will have completed work with hospitals to understand the extent of the gap between funding allocated to hospitals by Cancer Care Ontario and the hospitals' investments in PSO services. Cancer Care Ontario will then work with hospitals and the Ministry to adjust current funding mechanisms where appropriate.

Cancer Care Ontario has developed recommendations for the delivery of PSO services in Ontario (currently being reviewed by external PSO experts). The goal of the recommendations is to ensure the range of necessary PSO services

are provided consistently and in a timely fashion to all cancer patients and their families in Ontario who require them. This service delivery framework will serve as the backbone to assess and measure the delivery of PSO services within each Regional Cancer Programs.

4.5 Cancer Diagnostic Procedures

4.5.1 Ontario Slow to Adopt Advances in Positron Emission Tomography (PET) Scans

Positron emission tomography (PET) scans, which inject radioactive substances in the body to create detailed images, have become an increasingly important diagnostic tool in other jurisdictions. We found that PET scans that are insured under OHIP generally meet the needs of Ontarians. For example, in 2015, 81% of patients with a specific type of lung cancer received a PET scan prior to treatment. However, Ontario has not updated eligibility criteria or OHIP coverage rules for PET scans since 2013 and has been slow to adopt new radioactive tracers although a number of them are now available in other jurisdictions.

PET scans can show changes in biochemical processes before they become visible to other imaging tools such as CT scans or MRIs. PET scans are used mainly to diagnose and classify a cancer's stage in order to determine treatment.

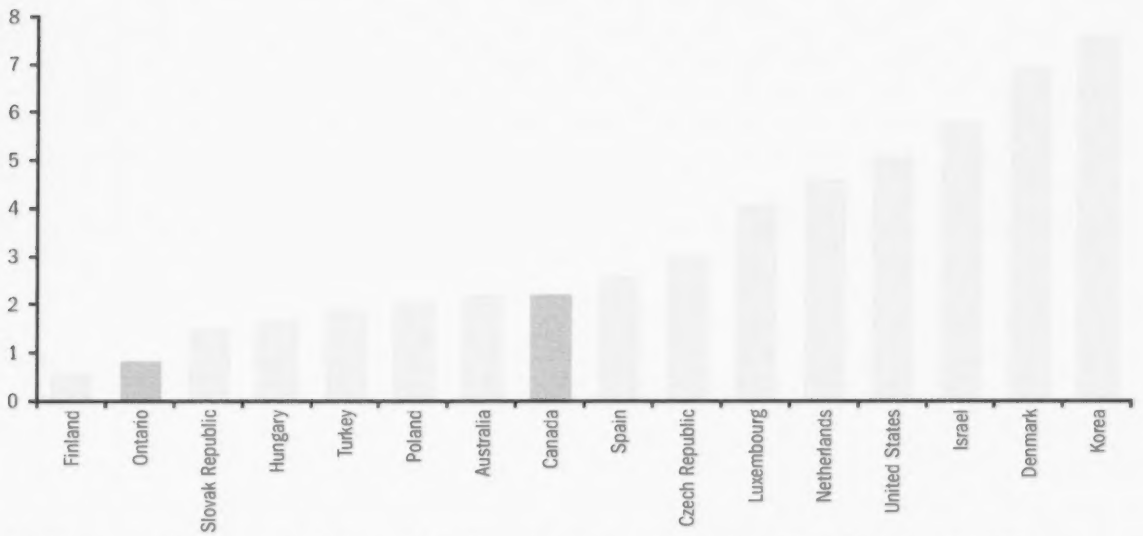
Ontario has one PET scanner and 12 PET/CT scanners, the latter being more advanced machines that make a PET scan first, then a CT scan, and then merge the two images using specialized software. In 2016/17, more than 13,000 PET scans were performed in Ontario, almost all of them (96%) on cancer patients.

Based on our analysis of PET scan rates in Ontario and other jurisdictions, we found that Ontario's rate was lower than most other countries, including Canada as a whole (see **Figure 15**). According to the Canadian Agency for Drugs and Technologies in Health, an independent, not-for-profit organization created by the Government of Canada, Ontario performed fewer PET scans per 1,000 people than any other Canadian province (see **Figure 16**).

Our analysis of CCO data indicated that 41% of the province's PET scan capacity was unused in 2016/17, suggesting that more patients could

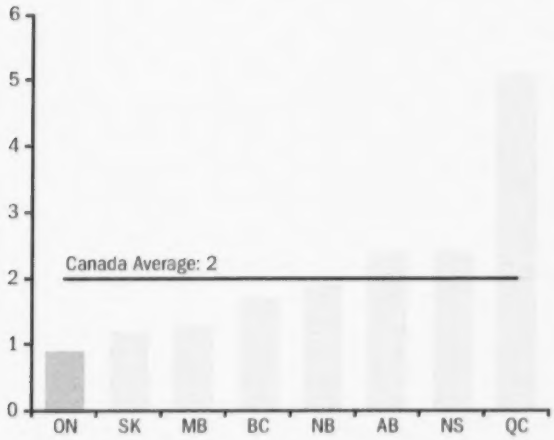
Figure 15: PET Scan Rate per 1,000 Population in Ontario and Other Jurisdictions, 2014

Source of data: Organization of Economic Co-operation and Development, Cancer Care Ontario



Note: PET scan data for other jurisdictions from the Organization of Economic Co-operation and Development. PET scan data for Ontario from CCO.

Figure 16: PET Scan Rate per 1,000 Population in Ontario and Other Canadian Jurisdictions, 2015
Source of data: Canadian Agency for Drugs and Technologies in Health



Note: Ontario's PET scan rate is calculated based on data provided by Cancer Care Ontario. Rates for the other provinces are entered by the Canadian Agency for Drugs and Technologies in Health based on survey results and published in a report titled, *The Canadian Medical Imaging Inventory, 2016.*

receive and potentially benefit from PET scans without adding more PET scanners. The Cancer Quality Council of Ontario reported that PET/CT utilization is likely affected by physician referral patterns and their awareness of the PET/CT program.

In Ontario, PET scans are only funded if there is evidence that the results of a PET scan will have an impact on care. However, we noted that, since 2013, Ontario has not updated the eligibility criteria for OHIP coverage of PET scans, which covers only patients with very specific medical conditions and diagnostic needs. OHIP currently covers PET scans for 15 medical conditions.

The Ministry negotiates the adding of new medical conditions to the list of OHIP-insured PET services with the Ontario Medical Association (OMA). However, since negotiations for a new physician-services agreement between the Ministry and the OMA have been ongoing for the past three years, the eligibility criteria for PET scans have not been updated. For example:

- In 2016, the Ontario PET Steering Committee, comprising representatives from the Institute for Clinical Evaluative Sciences, CCO, clinical oncologists, nuclear medicine physicians and other experts in PET technology and related areas, recommended using PET scans for determining stages of aggressive lymphoma, based on clinical evidence and international guidance released in 2014. However, PET scanning for lymphoma is still not an insured service under OHIP. In 2015, CCO estimated that about 50% of patients with aggressive lymphoma could have benefitted from a PET scan to determine the stage of their cancer, but only 14% received one.
- In 2015, although the Ontario PET Steering Committee has also made a similar recommendation to use PET scans for the staging of melanoma patients, it is still not an OHIP-insured service in Ontario.
- While British Columbia and Quebec cover PET scans for certain conditions of brain tumours and cervical cancer, Ontario currently does not cover PET scans for these types of cancer.

We also noted that Ontario has been slow to adopt new radioactive tracers, even though a number of them have been used in PET scans elsewhere in other jurisdictions in recent years. For example:

- In 2013, the Ontario PET Steering Committee recommended the use of a new radioactive tracer approved by Health Canada, rubidium, for PET scanning in Ontario. CCO suggested establishing three sites to do a minimum of 1,200 rubidium PET scans. Despite efforts by CCO to secure approval and funding from the Ministry, no progress has been made.
- The only radioactive tracer funded and used in PET scanning in Ontario is not effective for use in prostate cancers. In fact, no radioactive tracers effective in prostate cancer PET scans have ever been approved by Health Canada (the federal institution that authorizes drugs for use in Canada), but these tracers have been available in other jurisdictions for several years. For example, the tracer C11-Choline was approved by the U.S. Food

and Drug Administration for use in PET scans for prostate cancer in 2012. A newer tracer to detect prostate-specific membrane antigen in PET imaging has been used in the United Kingdom since 2016. However, neither of these radioactive tracers has been approved by Health Canada.

Recognizing the benefits as well as the limitations of PET scans for prostate cancer in Ontario, the Province has been sending some patients out-of-country since 2014 to get PET scans in other jurisdictions that use the newer radioactive tracers. Patients are approved on a case-by-case basis, and the cost of the scans is covered through the Ministry's out-of-country program. We noted that the cost of these out-of-country PET scans is significant—our analysis of data between 2014 and 2016 found that the average out-of-country cost was about $8,500, which is likely to be higher than the cost of providing the service in Ontario.

Since new radioactive tracers are not being used in Ontario, CCO expected that the volume of out-of-country requests for PET scans with these radioactive tracers will increase. In 2016, CCO submitted a report to the Ministry to highlight the risks of Ontario not being able to meet the growing need for PET scans and to remain up-to-date according to the best available clinical evidence.

RECOMMENDATION 11

To better ensure that cancer patients benefit from PET scans for diagnosis and treatment, we recommend that the Ministry of Health and Long-Term Care work with Cancer Care Ontario to:

- streamline and expedite the processes for adopting and funding new radioactive tracers in PET scanning, including updating the eligibility criteria for OHIP-insured PET scan services; and
- increase awareness of the availability of PET scanning and its usage in some clinical scenarios.

MINISTRY RESPONSE

The Ministry accepts this recommendation and will make best efforts to work with our partners, including Cancer Care Ontario, to adopt and fund new indications for PET scanning, including the use of new radioactive tracers. The eligibility criteria for OHIP-insured PET scan services may be updated as part of the negotiations between the OMA and the Ministry.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees with this recommendation and has been working with the Ministry to streamline and expedite the processes for adopting and funding new technologies in PET scanning.

The Ministry is transitioning oversight of all insured PET services to Cancer Care Ontario. This will include funding for new technologies, which will expedite the processes for adopting new technologies.

To address gaps in the use of PET scanning for clinical scenarios where it has been recommended for use in Ontario, Cancer Care Ontario will continue to leverage its provincial clinical advisory networks and partnerships with relevant stakeholders to improve referring physician awareness, as well as identify and address potential barriers to patient access.

4.5.2 Significant Regional Variations in Wait Times for CT Scans and MRIs

Computerized tomography (CT) scans and magnetic resonance imaging (MRIs) are two of the most common diagnostic-imaging procedures for cancer patients.

CT scanning uses a computer linked to an x-ray machine, while MRIs use a magnetic field and pulses of radio waves, to produce images of areas (such as organs, soft tissues and bones) inside the body.

CT scans and MRIs performed in Ontario are classified according to four priority levels: emergency, urgent, less urgent, and non-urgent. Cancer-related imaging procedures are rarely prioritized as emergency, and mostly fall under less urgent. We reviewed wait-time data related to urgent, less urgent and non-urgent cancer-related CT scans and MRIs from 2012/13 to 2016/17 and found that:

- The percentage of cancer-related CT scans performed within the Ministry's wait-time targets decreased from 64% to 59% over that period. In particular, in 2016/17, 48% of patients did not receive their less urgent CT scans within wait-time target of 10 days. We also found that the 90th percentile wait time for less urgent cases was 31 days—more than three times longer than target. This means that 10% of patients waited longer than 31 days, and 90% waited some amount of time under 31 days. We also noted that CT scans for non-cancer patients were completed within wait-time targets more often than for cancer patients.
- The percentage of cancer-related MRIs performed within the Ministry's wait-time targets decreased from 56% to 51%. In particular, in 2016/17, 47% of less urgent MRIs for cancer patients were not completed within the wait-time target of 10 days. We also found that the 90th percentile wait time for less urgent cases was 37 days—almost four times longer than target. This means that 10% of patients waited longer than 37 days, and 90% waited some amount of time under 37 days.

We also reviewed funding data for diagnostic procedures in the past five years. In May 2017, the Ministry announced one-time MRI funding for 2017/18 of $7.3 million, of which $2.5 million was targeted toward cancer-staging and diagnosis.

However, we questioned the effectiveness of one-time funding, which helps reduce wait times temporarily, but has not led to sustained wait-time reductions. Between 2010/11 and 2013/14, the Ministry provided hospitals with similar one-time funding totalling $15 million, which did temporarily reduce wait times for MRIs through 2013/14. But wait times have been on the rise again since then. Hospitals we visited informed us that one-time funding can create difficulties in hiring and training as hospitals must ramp up staff to accommodate additional funded hours—and then ramp down again when the funding ends.

Since cancer-related imaging procedures mostly fall under the less urgent category, we analyzed wait times for CT scans and MRIs done in 2016/17 in this category and noted that cancer patients experienced significant variations in wait times, depending on the hospital. In addition, many waited longer than the Ministry's target of 10 days. For example:

- The 90th percentile wait time was 49 days for CT scans at one hospital, compared to 11 days at another in the same LHIN and just five kilometres away.
- The 90th percentile wait time was 50 days for CT scans at one hospital, compared to 12 days at another 25 kilometres away.
- The 90th percentile wait time was 29 days for MRIs at one hospital, compared to 10 days at another in the same LHIN and 20 kilometres away.
- The 90th percentile wait time was 42 days for MRIs at one hospital, compared to 15 days at another 25 kilometres away.

The significant wait-time variations were due mainly to the lack of a centralized referral and booking system to help smooth volumes among hospitals across the province and within LHINs. We noted that only three of the 14 LHINs were in the process of planning and implementing a centralized referral and booking system for CT scans and MRIs.

RECOMMENDATION 12

To better ensure cancer patients receive timely and equitable access to CT scans and MRIs, we recommend that the Ministry of Health and

Long-Term Care work with Cancer Care Ontario and hospitals to:

- analyze the reasons for delays in scheduling CT scans and MRIs and take corrective actions to reduce wait times for cancer patients; and
- implement centralized referral and booking processes for cancer-related CT scans and MRIs.

MINISTRY RESPONSE

The Ministry works closely with the Diagnostic Imaging Access To Care (DI-ATC) group at Cancer Care Ontario to examine and understand the causes of scheduling delays and long wait times for imaging services. Through knowledge sharing, LHINs and hospitals are provided with recommendations to improve patients wait lists and reduce queue lengths on a regular basis.

In addition, the DI-ATC group has identified key patient cohorts, which include cancer patients, for whom targeted funding will help reduce wait times. Acting on this advice, in 2017/18, the Ministry provided LHINs with funding to help reduce wait times for MRIs for cancer patients. The 90th percentile wait times of priority level 2-4 [urgent, less urgent and non-urgent] cancer patients have declined from 54 days in March 2017 to 48 days in August 2017. Further improvements in wait times are expected in the third quarter and fourth quarter of 2017/18.

Both the Ministry and Cancer Care Ontario accept the recommendation to establish centralized referral and booking processes, which would be part of an overall co-ordinated programmatic approach to address the appropriateness and timeliness of imaging in Ontario. The Ministry is currently in the process of rolling out across Ontario musculoskeletal intake, assessment and management models that include leveraging existing models of care, such as Central Intake and Assessment Centres for hip and knee, and the Interprofessional Spine Assessment and Education Clinics for acute low back pain.

These models create a process where primary-care providers have one point of contact for all referrals, surgical wait lists are managed centrally, and patients are rapidly triaged to the most appropriate provider. Patients who require specialist care are given their choice of surgeon or next available appointment. Patients who do not require surgery are supported with education, self-management plans and referrals to community services for conservative management.

Recognizing that the musculoskeletal models of care offer a way to manage demand for critical health services by improving appropriateness of referrals, the Ministry is monitoring local efforts to test central intake for other areas of high demand services, including diagnostic imaging. The Ministry is also supporting the expansion of tools and supports, like eReferral, to improve appropriateness of diagnostic-imaging referrals, and reduce demand growth for MRI and CT scans.

4.5.3 No Provincial Peer Review Program for Diagnostic-Imaging Results

Peer review of diagnostic-imaging results remains inadequate even though misinterpretation of such images has resulted in past cancer cases going undiagnosed several years ago.

A 2013 review of a radiologist's work at one hospital uncovered issues related to about 600 CT scans, some of which involved undiagnosed cancers. Due to the progressive nature of some cancers, misinterpretation of scans can have severe consequences for patients whose cancer is diagnosed later, after it has become more advanced.

To address this issue, the Ministry in 2013 confirmed that peer review is an effective method for enhancing safety and accuracy in diagnostic imaging in many jurisdictions around

the world. The Ministry also confirmed that a province-wide physician-peer-review program would be implemented in all facilities that offer diagnostic imaging.

A June 2015 Health Quality Ontario report outlined an implementation plan for a structured, mandatory province-wide peer-review program, but we noted that the Ministry has taken no steps to date to implement it.

Our survey of hospitals showed that 48% did not perform regularly scheduled peer review of diagnostic images. The main reasons for this include a lack of radiologists, funding issues and a lack of guidance on how to implement peer-review programs.

RECOMMENDATION 13

To better ensure cancer patients receive quality diagnostic-imaging services, we recommend that the Ministry work with Cancer Care Ontario and the hospitals to implement a province-wide mandatory peer-review program based on the recommendations of Health Quality Ontario.

MINISTRY RESPONSE

The Ministry accepts this recommendation and will work with Health Quality Ontario and other partners to implement a province-wide mandatory peer-review program for diagnostic imaging.

4.5.4 Long Wait Times for Cancer Patients to Receive Biopsy

Biopsies are a common procedure to diagnose cancer by taking a sample of tissue or cells for testing. Biopsies can be performed in clinics, or in procedure rooms or operating rooms of hospitals.

In 2016/17, about 9% of biopsies (22,000) were performed in hospital operating rooms because they required more invasive surgery, larger tissue samples and the use of anaesthetic. The remaining 91% were less invasive and performed in clinics or hospital procedure rooms.

Based on our review of the best available wait-time data for biopsies performed in hospital operating rooms, we found that fewer than half (46%) of those performed in 2016/17 met the Ministry's targeted wait time of 14 days, with the 90th percentile wait time being 78 days —almost six times longer than target. This means that 10% of patients wait longer than 78 days and 90% waited some amount of time under 78 days.

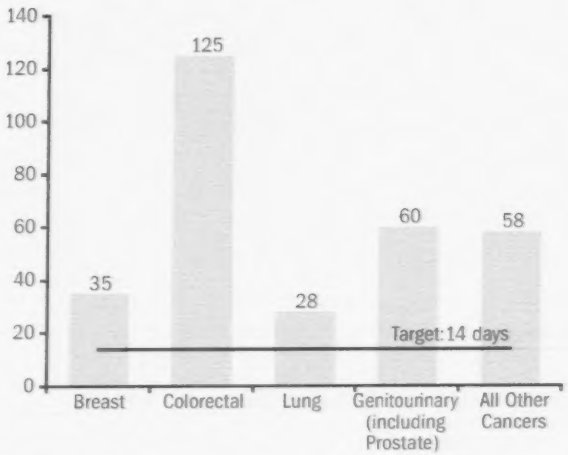
Of the common types of cancer, biopsies for colorectal cancers had the longest wait times, with the 90th percentile wait time being 125 days, or almost nine times longer than the Ministry's target of 14 days (see **Figure 17**). Over the last five years, wait times remained long and did not meet the Ministry's targets.

Although CCO has regularly collected biopsy wait-time data since 2006, it still has not confirmed the completeness and accuracy of this data, and has not compared it to its wait-time targets.

We also noted that limited wait-time data is available in Ontario, because CCO only tracked wait times for biopsies performed in hospital

Figure 17: Wait Time for Biopsies by Types of Cancers, 2016/17 (Days)

Source of data: Cancer Care Ontario



Note: Wait times measured for 90% of cases.

operating rooms, not those done in clinics or hospital procedure rooms. In addition, CCO has not publicly reported wait times of biopsies performed in hospital operating rooms.

After a sample of tissue is taken, it must be sent to a laboratory for analysis. We noted that the turnaround time for biopsy results is generally close to the provincial wait-time target. In 2016/17, 83% of patients received biopsy results within the provincial wait-time target of 14 days, with the 90th percentile wait time being 18 days.

RECOMMENDATION 14

To better ensure cancer patients receive timely diagnostic services, we recommend that the Ministry of Health and Long-Term Care work with Cancer Care Ontario and the hospitals to:

- regularly track and monitor wait times of biopsies performed in clinics and hospital procedure rooms, as well as those done in hospital operating rooms; and
- develop strategies to reduce the wait times for biopsies performed in hospital operating rooms.

MINISTRY AND CANCER CARE ONTARIO RESPONSE

The Ministry and Cancer Care Ontario agree that timely access to biopsy services is an important component of quality care.

Cancer Care Ontario's initial focus for cancer surgery was aimed at improving wait times for treatment. Now, working with our Regional Cancer Program partners, Cancer Care Ontario is expanding our focus to a multi-year initiative focused on biopsy procedures. The project will focus on improving the quality and completeness of data about biopsies performed in hospitals; helping hospitals submit the data appropriately; and upgrading the Wait Time Information System. As each phase of work is completed, we will use the data to reduce the wait times for biopsies performed in hospital operating rooms.

Due to the complexity, location and resources involved, it may not be feasible to capture biopsy data performed in clinics outside of hospitals. The Ministry and Cancer Care Ontario will explore strategies in this area in 2018/19.

4.6 Funding Cancer-Treatment Services

4.6.1 Inequitable Funding for Radiation Services among Hospitals

In Ontario, both the Ministry and CCO fund hospitals for radiation services, but they do not use a consistent method or rate to determine amounts, which results in inequitable funding among hospitals.

Seventeen hospitals were funded $213 million to provide radiation treatment in 2015/16. The Ministry paid about $115 million of this and CCO $98 million.

Inconsistent Funding Methodologies Used

Figure 18 shows different funding methods for radiation services, depending on the hospital and on whether funding comes from the Ministry, CCO, or both. We observed that:

- Ten hospitals receive funding from both CCO and the Ministry, which provides additional money to hospitals that are expanding or have expanded their radiation capacity.
- Four hospitals receive funding only from CCO.
- Three hospitals receive funding only from the Ministry.

Typically, a cancer patient receives only one initial consultation, but can have more than one course of radiation treatment over several visits. Thus, funding based on the number of consultations could be significantly different than that based on the number of radiation treatments or visits.

Figure 18: Different Methods Used to Fund Radiation Cases

Prepared by the Office of the Auditor General of Ontario

	Funding Source			
	CCO ($98 million)		Ministry ($115 million)	
# of Hospitals	Based on # of Consultations[1] ($ million)	Based on # of Radiation Courses[2] ($ million)	Based on # of Patient Visits[3] ($ million)	Through Hospital's Overall Budget ($ million)
9	52.1		43.5	
4	41.1			
3			42.3	
1		4.9		28.8
Total	**93.2**	**4.9**	**85.8**	**28.8**

1. A consultation is a clinical visit by a patient with a specific diagnosis to a physician at a specific hospital.
2. A radiation course is a consecutive series of scheduled radiation treatments with a distinct radiation dose.
3. A patient visit is actual radiation treatment and any planning visits, including preparation of anti-radiation mask, radiation simulation, dosage assessment, radiation review, and post-treatment follow-up.

In 2015/16, CCO funded 14 hospitals for radiation services, 13 of them based on the number of radiation consultations, and one on the number of radiation courses delivered. The one hospital funded based on radiation courses received about $4.9 million for treating about 600 cases. If CCO had instead funded these treated cases based on radiation consultations, we estimated that it would have received about $2.6 million, or just over half of what it actually got. We also noted that this hospital, unlike the other 13 hospitals, did not receive funding for consultations that did not proceed to treatment (discussed below).

In 2015/16, 12 hospitals that expanded existing facilities or built new ones received radiation funding from the Ministry through a capital program that also provided operational funding to treat additional patients. However, unlike CCO, the Ministry funded these hospitals based on the number of patient visits, not the number of radiation consultations or treatments.

We also noted that the Ministry used a significantly higher funding rate than CCO. For example, in 2015/16, the Ministry provided one hospital about $17.5 million in total radiation funding based on the number of patient visits. When we converted the Ministry's funding, which is based on patient visits, to CCO's funding, which is based on consultations, we estimated that the Ministry's funding rate was equivalent to about $6,200 per consultation, or about 1.7 times more than the CCO's rate of $3,700 per consultation.

CCO acknowledged that the current funding approach for radiation treatment is not based on the activities at hospitals, does not consider the complexity of cases, and needs to be revised to ensure that hospitals are funded consistently and equitably.

Funding for Radiation Treatment Not Based on Services Provided

CCO provides funding to 13 hospitals based on the number of consultations. However, we noted that this funding method is not appropriate because hospitals are not funded based on actual radiation treatments provided to patients.

Radiation funding from CCO is intended to cover the average cost of all radiation-related services, including consultation, treatment and follow-up care. Since OHIP pays oncologists directly for consultations with patients, hospitals incur the majority of the costs after radiation treatment actually begins.

We reviewed CCO data for 2014/15 and noted that the current funding method based on the average cost does not equitably address the multiple scenarios where some patients do not go on to treatment while other patients receive more than one course of treatment. For example:

- Hospitals received funding for consultations that did not proceed to treatments. Province-wide about 30% of patients who had consultations with radiation oncologists did not proceed to treatments within about two years following the consultation. We estimated that CCO paid hospitals about $30 million (about one-third of its total radiation expenditures) for these consultations in 2015/16, even though the hospitals incurred limited direct costs. The percentage of consultations that did not proceed to radiation treatment also varied across cancer centres. For example, one hospital provided about 920 consultations in 2014/15 and received funding for all of them. However, only about half of these patients eventually received radiation therapy.
- Some patients require more than the average course of radiation treatment after consultations. Therefore, hospitals providing services to these patients would have received more funding if they had been funded based on actual treatments delivered rather than consultations.

RECOMMENDATION 15

To better ensure radiation funding is equitable and reflects the actual services delivered by hospitals, we recommend that the Ministry of Health and Long-Term Care work with Cancer Care Ontario to evaluate and revise existing funding methods for radiation treatment so as to fund hospitals based on a consistent rate and actual services delivered.

MINISTRY AND CANCER CARE ONTARIO RESPONSE

Under the current Cancer Care Ontario radiation funding model, hospitals receive a payment based on the average cost of caring for a patient from consultation through radiation treatment and follow-up (and any re-treatments due to recurrence of disease). This model acknowledges that while some patients may receive only consultation, others will receive multiple courses of treatment.

The Ministry has a different funding model for eligible hospitals, the Post Construction Operating Plan (PCOP), which funds radiation treatment on a per visit rate. A patient visit is actual radiation treatment and any planning visits, including preparation of anti-radiation mask, radiation simulation, dosage assessment, and radiation review and post-treatment follow-up. The PCOP typically uses a hospital's historical costs or that of a comparator hospital to arrive at a rate per radiation visit.

Both the Ministry and Cancer Care Ontario agree that a new, single radiation funding model should be implemented to fund all hospitals and is evaluating approaches for this funding model. This revised approach would apply consistently to all radiation treatment activity and eliminate issues of multiple funding models. By March 2018, Cancer Care Ontario will submit a business plan to the Ministry for consideration of a new funding model for radiation services. Pending Ministry approval, the implementation of the new model would ensure consistent rates across all hospitals offering radiation treatment and reflect variation in complexity of care delivered.

4.6.2 Funding for Cancer Drug Therapy Not Based on Services Provided

Funding for cancer drug therapy is not based on services provided despite the implementation of a new funding model, the Quality Based Procedure (QBP), which is intended to reflect the actual cost of treatments.

Prior to 2014/15, both CCO and the Ministry funded hospitals for cancer drug therapy, such as chemotherapy. However, as with funding for radiation treatment, the use of inconsistent methods led to funding inequities among hospitals—for example, CCO funded hospitals based on consultations, and the Ministry based on patient visits (see **Figure 18**).

Since 2014/15, CCO assumed full responsibility for funding cancer drug therapy, and implemented the new QBP model. Under QBP, hospital funding is calculated based on the number, type or complexity of activities performed at the hospital, as well as the funding rates established collaboratively by CCO, clinical experts and hospitals.

The purpose of QBP is to ensure equitable funding and reflect the actual cost of treatment so as to avoid overfunding low-complexity cases and underfunding high-complexity ones.

Some Funding Still Based on Historical Levels Rather than Service Volumes

In 2015/16, 82% ($152.4 million) of cancer-drug-therapy funding was based on QBP, while the remaining 18% ($32.6 million) was based on historical funding.

We noted that half of the hospitals still received funding that was not based on their activities. We also found that the proportion of historical funding varied among hospitals, from zero to 53%. For example, one hospital received about $3.3 million for cancer drug therapy, with $1.5 million of it from QBP and the remaining $1.8 million not tied to any service volumes.

Since the implementation of QBP in 2014/15, CCO has provided hospitals a total of $107 million based on historical funding. CCO informed us that it will continue to refine QBP, with the eventual goal of eliminating all funding based on historical levels.

Incomplete Treatment Cycles Funded

CCO overfunded hospitals by about $12 million during 2014/15 and 2015/16 by paying the full cost of treatment courses that were not completed. CCO's analysis completed in 2015/16 found that on average, more than half (58%) of patients receiving intravenous cancer drug therapy at hospital outpatient clinics did not complete the recommended number of visits for a full course of treatment because of severe side effects and/or changes to treatment plans.

We estimated that CCO overfunded hospitals by about $12 million for incomplete treatment courses during 2014/15 and 2015/16. Although CCO modified the funding formula in 2016/17 to fund hospitals only when a patient receives care, its contractual agreement with the hospitals has prevented it from recovering the $12 million.

Funding Consultations for Non-Malignant Cases

From 2014/15 to 2016/17, CCO provided $3.1 million to hospitals for consultations that did not proceed to cancer drug therapy.

CCO began in 2014/15 to fund hospitals using the QBP model, which calculates funding based on the type, number and complexity of activities performed. One of the activities is the number of consultations provided to patients. Typically, consultation for drug therapy refers to a patient's first meeting with a medical oncologist to confirm whether the patient has cancer. If the patient learns at the consultation that they have non-malignant tumours rather than cancer, obviously there is no drug therapy.

Since OHIP pays oncologists directly for providing consultations to patients, hospitals incur the majority of the costs after patients begin drug therapy. However, we noted that CCO still provided

funding to some hospitals for consultations for non-malignant cases that did not require drug therapy.

Between 2014/15 and 2016/17, CCO paid hospitals about $3.1 million for consultations related to non-malignant cases. CCO informed us that it recognized the inappropriateness of this method. While CCO had reduced its funding for these non-malignant consultations as part of its three-year initiative between 2014/15 and 2016/17, it only stopped funding these cases since 2017/18.

RECOMMENDATION 16

To better ensure that funding for cancer drug therapy is appropriate and reflects the actual services delivered by hospitals, we recommend that Cancer Care Ontario fund hospitals using a consistent methodology that is not historically based.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees that hospitals should be funded consistently for the delivery of cancer drug therapy.

In 2014/15, Cancer Care Ontario introduced the Systemic Treatment Quality Based Procedure in which all hospitals began to receive funding based on services delivered. Hospitals that saw a reduction in funding at the introduction of this model also received "un-modelled" funding as an interim strategy to mitigate the funding reduction and avoid adverse impact to patient care. This un-modelled funding was gradually reduced as additional components were built into the Systemic Treatment Quality Based Procedure.

Cancer Care Ontario has carefully analyzed the remaining un-modelled funding and concluded that this funding was used to support services for cancer patients, although in many cases not limited to cancer drug therapy. As such, Cancer Care Ontario recommends that the remaining un-modelled funding be permanently returned to the hospital global base for the 2018/19 year. Cancer Care Ontario will immediately begin working with the Ministry on the mechanisms and process for this transfer.

4.6.3 Cancer Funding Neither Timely Nor Performance-Based

The Ministry did not provide cancer funding to CCO on a timely basis. Our review of the Ministry's funding letters to CCO over the last five fiscal years shows that CCO only received formal financial commitments either in the middle or toward the end of the fiscal year (see **Figure 19**).

CCO said it is difficult to allocate the volumes of cancer services among hospitals without knowing the budget before the start of the fiscal year. The delay in funding allocation has also prevented hospitals from properly planning and prioritizing their activities for the year.

Figure 19: Timeline of Ministry's Funding Letters to CCO (2012/13–2016/17)

Prepared by the Office of the Auditor General of Ontario

Funding for Fiscal Year	Date of Ministry's Funding Letter to CCO	# of Months Delayed*
April 2012–March 2013	September 2012	5
April 2013–March 2014	November 2013	7
April 2014–March 2015	February 2015	10
April 2015–March 2016	February 2016	10
April 2016–March 2017	December 2016	8

* Calculated as the number of months after the start of the fiscal year.

We also noted that cancer funding from CCO to hospitals, and from the Ministry to CCO, is volume-based or fixed. None of the CCO funding to hospitals is tied to how well they perform compared to others in areas such as wait times, quality of services and so on. Similarly, none of the Ministry funding to CCO is linked to CCO meeting provincial cancer-program targets.

RECOMMENDATION 17

To better ensure that cancer treatment services are delivered effectively and efficiently to meet patient needs, we recommend that the Ministry of Health and Long-Term Care:

- incorporate a component of performance-based funding in the current funding model to provide incentives for improving the performance of the cancer system in Ontario; and
- provide Cancer Care Ontario with timely funding decisions for proper planning and budgeting of cancer services.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees that a pay-for-performance framework may be beneficial for facilitating performance improvement.

As part of all current volume funding agreements with hospitals, Cancer Care Ontario outlines quality expectations and links to funding through a performance and issues management process. However, financial incentives or disincentives for performance are not applied to the funding agreements, as a provincial framework does not currently exist to enable performance-based funding.

Cancer Care Ontario supports the efforts that have been undertaken by the Ministry to develop a quality overlay framework that would enable Cancer Care Ontario to provide financial incentives to hospitals for meeting the quality expectations already outlined in the agreements.

MINISTRY RESPONSE

Building on lessons learned internationally and from Ontario's Emergency Department Pay-for-Results program, the Ministry, together with its partners, is exploring opportunities to incorporate performance-based funding in its current hospital funding model as part of the next phase of Ontario's Health System Funding Reform. It is envisioned that such an initiative would be piloted first before any decisions are being made about full implementation.

The Ministry accepts this recommendation and will work with Cancer Care Ontario to ensure that the agency receives timely funding decisions.

New funding for the CCO-managed Quality Based Procedures for the 2017/18 year was confirmed in funding letters on April 27, 2017, the day after LHINs received their hospital funding allocations; the earliest this funding has been confirmed within a fiscal year. The Ministry will endeavour to continue to provide this funding confirmation as early in the year as possible.

4.7 Accountability and Oversight of Ontario's Cancer Programs

4.7.1 Accountability Structure of Regional Vice Presidents Needs Improvement

Regional vice presidents (RVPs) are responsible for managing regional cancer centres and their cancer programs. They are accountable to CCO and to the hospitals where the regional cancer centres are located. As a result, the hospitals and CCO jointly agree on RVPs' terms of appointment, compensation and responsibilities.

The RVPs receive joint appointment letters, from CCO and the hospitals, outlining the RVPs' cancer-care related responsibilities and expectations. However, we noted that CCO was not able to provide the joint appointment letter for one of the RVPs.

In addition, in order to measure the performance on high-priority areas for quality improvement, CCO establishes key performance indicators and targets each year. The RVPs are ultimately responsible for working toward these targets in their individual regions.

CCO policy requires the hospital and CCO to jointly assess and document the performance of each RVP annually. However, our review of performance evaluations noted the following:

- CCO did not always conduct the required annual performance evaluations of the RVPs. CCO only assessed half of the 14 RVPs in 2016, three of which were not assessed for three years. In addition, one RVP was only assessed once in the past five years, but CCO was unable to provide documentation of the assessment.
- For those evaluated, the assessment period was not consistent. For example, the assessment period for one RVP was 27 months whereas another RVP's assessment was based on 13 months.
- CCO policy provides an overall rating (unsatisfactory, needs development, good, very good, excellent, or outstanding) to each RVP. We found that almost all of the RVP evaluations completed in 2016 received a rating of excellent although not all of their performance indicators met CCO's annual improvement target. CCO informed us that the results of these indicators showed improvement and that RVPs were also assessed based on other subjective areas, such as feedback from peers and reports by RVPs outlining their achievements.

4.7.2 More Collaboration Needed among Ministry, LHINs, CCO and Hospitals When Setting Cancer Performance Targets

Cancer service is just one of many programs in a hospital. However, CCO currently does not consult with the executive management of hospitals or the Ministry, and does not take into consideration individual hospital priorities, when setting cancer-related performance indicators and targets.

CCO establishes performance indicators and annual improvement targets in collaboration with its RVPs. However, we noted that neither the Ministry nor the LHINs participated in this process. In addition, CCO only meets with executive management of hospitals once a year and no Ministry or LHIN staff attend these meetings. As a result, cancer programs often compete with other hospital programs and priorities for shared services, such as diagnostic imaging, laboratory testing and operating-room time.

We also noted that while the 14 RVPs are not CCO employees, CCO relies on them to drive performance improvements and integrate cancer care across Ontario. However, we found that 12 of the 14 RVPs have other full-time responsibilities in addition to managing their regional cancer centres and cancer programs. For example, they also manage such programs as diagnostic-imaging departments, laboratory services, in-patient units and palliative programs. With these additional responsibilities, it is difficult for RVPs to devote sufficient time to collaborate with other hospitals, LHINs and other system partners in their regions to improve cancer performance.

RECOMMENDATION 18

To better ensure regional cancer programs are managed and operated by regional vice presidents (RVPs) effectively and efficiently to meet patient needs, we recommend Cancer Care Ontario:

- work with hospitals to assess and improve the current reporting and accountability structure for RVPs;
- work with hospitals to assess the performance of RVPs on an annual basis against program objectives and targets; and
- collaborate with the Ministry of Health and Long-Term Care and Local Health Integration Networks when establishing priority indicators and targets to minimize competing demands between cancer and other programs.

CANCER CARE ONTARIO RESPONSE

Cancer Care Ontario agrees that performance management is a foundational component of the performance improvement cycle, and has a robust performance management and accountability process in place, including quarterly performance discussions with the leadership teams of each Regional Cancer Program, a Regional Performance Scorecard to monitor improvements and a guideline for managing performance issues.

Cancer Care Ontario and the CEOs of the Regional Cancer Centre hospitals assess the overall performance of the RVPs on an annual basis. This process considers the multiple complex elements of the RVP role description, including management of system issues, success of furthering provincial and regional priorities, development of new clinical programs to the region, capacity planning, capital infrastructure implementation, and improvements in performance.

In alignment with our current approach to performance improvement, Cancer Care Ontario is reviewing the role description of the RVPs, which will be completed by March 2018. Cancer Care Ontario is reviewing literature and structures for performance management in other cancer system jurisdictions, which will inform any future opportunities to improve the current reporting and accountability structure.

Currently, Cancer Care Ontario submits a subset of performance indicators to the Ministry as part of our accountability reporting and, beginning next fiscal year, will consult with the Ministry on the complete selection of Regional Performance Scorecard indicators.

Appendix 1: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Effective procedures and co-ordination among service providers are in place to ensure patients have timely and equitable access to safe and evidence-based cancer treatments that meet patient needs.
2.	Effective controls are in place to ensure cancer patients who apply for financial support are assessed on a timely and consistent basis in accordance with the eligibility criteria.
3.	Analysis and research are performed periodically to assess whether cancer treatments and drug coverage in other jurisdictions can be made available in Ontario.
4.	Effective procedures are in place to ensure cancer funding and resources are allocated in a timely and equitable manner to service providers to meet patient needs, used for the purposes intended, and administered with due regard for economy and efficiency.
5.	Performance measures and targets are established, monitored and compared against actual results to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.
6.	Financial and operational data are collected to provide accurate, complete and timely information to help guide management decision-making and assist with performance management and public reporting.

Appendix 2: Hospitals Providing Cancer Treatment Services in Ontario

Prepared by the Office of the Auditor General of Ontario

		Cancer Treatment Services		
Hospital	**LHIN**	**Radiation**	**Surgery**	**Drug Therapy**
Alexandra Marine And General Hospital	South West		✓	
Almonte General Hospital	Champlain		✓	
Arnprior Regional Health	Champlain		✓	
Atikokan General Hospital	North West			✓
Bluewater Health[1]	Erie St. Clair		✓	✓
Brant Community Healthcare System	Hamilton Niagara Haldimand Brant		✓	✓
Brockville General Hospital	South East		✓	✓
Cambridge Memorial Hospital	Waterloo Wellington		✓	✓
Carleton Place District Memorial Hospital	Champlain		✓	
Chatham-Kent Health Alliance	Erie St. Clair		✓	✓
Children's Hospital of Eastern Ontario	Champlain			✓
Collingwood General and Marine Hospital	North Simcoe Muskoka		✓	
Cornwall Community Hospital	Champlain		✓	✓
Dryden Regional Health Centre	North West			✓
Georgian Bay General Hospital	North Simcoe Muskoka		✓	
Geraldton District Hospital	North West			✓
Grand River Hospital (Grand River Regional Cancer Centre)[1,2]	Waterloo Wellington	✓	✓	✓
Grey Bruce Health Services	South West		✓	✓
Groves Memorial Community Hospital	Waterloo Wellington			✓
Guelph General Hospital	Waterloo Wellington		✓	✓
Haldimand War Memorial Hospital	Hamilton Niagara Haldimand Brant		✓	
Halton Healthcare Services Corporation	Central West/Mississauga Halton		✓	✓
Hamilton Health Sciences (Juravinski Cancer Centre)[1,2]	Hamilton Niagara Haldimand Brant	✓	✓	✓
Hanover and District Hospital	South West		✓	
Headwaters Health Care Centre	Central West/Mississauga Halton		✓	✓
Health Sciences North/Horizon Santé – Nord (Northeast Cancer Centre)[1,2]	North East	✓	✓	✓
Hopital General de Hawkesbury and District General Hospital Inc.	Champlain		✓	✓
Hopital General de Nipissing Ouest/The West Nipissing General Hospital	North East			✓
Hôpital Montfort	Champlain		✓	
Hôpital Notre-Dame Hospital (Hearst)	North East			✓
Hornepayne Community Hospital	North East			✓
Humber River Hospital	Central		✓	✓
Huron Perth Healthcare Alliance (Stratford General Hospital)	South West		✓	✓

Hospital	LHIN	Cancer Treatment Services		
		Radiation	Surgery	Drug Therapy
Joseph Brant Hospital	Hamilton Niagara Haldimand Brant		✓	✓
Kingston General Hospital (Cancer Centre of Southeastern Ontario)[1,2]	South East	✓	✓	✓
Kirkland and District Hospital	North East			✓
Lake of the Woods District Hospital	North West		✓	✓
Lakeridge Health (R.S. McLaughlin Durham Regional Cancer Centre)[1,2]	Central East	✓	✓	✓
Leamington District Memorial Hospital	Erie St. Clair		✓	
Lennox and Addington County General Hospital	South East		✓	✓
Listowel Wingham Hospital Alliance	South West			✓
London Health Sciences Centre (London Regional Cancer Program)[1,2]	South West	✓	✓	✓
Mackenzie Health[1]	Central		✓	✓
Manitoulin Health Centre	North East			✓
Manitouwadge General Hospital	North West			✓
Markham Stouffville Hospital Corporation	Central		✓	✓
Muskoka Algonquin Healthcare	North Simcoe Muskoka		✓	✓
Niagara Health System	Hamilton Niagara Haldimand Brant	✓	✓	✓
Nipigon District Memorial Hospital	North West			✓
Norfolk General Hospital	Hamilton Niagara Haldimand Brant		✓	
North Bay Regional Health Centre	North East		✓	✓
North of Superior Healthcare Group	North West			✓
North Shore Health Network Réseau Santé Rive Nord	North East			✓
North Wellington Health Care Corporation	Waterloo Wellington			✓
North York General Hospital	Central		✓	✓
Northumberland Hills Hospital	Central East		✓	✓
Orillia Soldiers' Memorial Hospital	North Simcoe Muskoka		✓	✓
Pembroke Regional Hospital Inc	Champlain		✓	✓
Perth and Smiths Falls District Hospital	South East		✓	✓
Peterborough Regional Health Centre	Central East	✓	✓	✓
Queensway Carleton Hospital	Champlain		✓	
Quinte Health Care	South East		✓	✓
Renfrew Victoria Hospital	Champlain		✓	✓
Riverside Health Care Facilities Inc	North West		✓	✓
Ross Memorial Hospital	Central East		✓	
Rouge Valley Health System	Central East		✓	✓
Royal Victoria Hospital (Simcoe Muskoka Regional Cancer Centre)[1,2]	North Simcoe Muskoka	✓	✓	✓
Sault Area Hospital	North East	✓	✓	✓
Sensenbrenner Hospital	Champlain			✓

Hospital	LHIN	Cancer Treatment Services		
		Radiation	Surgery	Drug Therapy
Sinai Health System	Toronto Central South		✓	✓
Sioux Lookout Meno-Ya-Win Health Centre	North West		✓	✓
South Bruce Grey Health Centre	South West		✓	
Southlake Regional Health Centre (Stronach Regional Cancer Centre at Southlake)[1,2]	Central	✓	✓	✓
St. Joseph's Healthcare Hamilton, a division of the St. Joseph's Health System	Hamilton Niagara Haldimand Brant		✓	
St. Joseph's General Hospital Elliot Lake	North East		✓	✓
St. Joseph's Health Care London	South West		✓	
St. Joseph's Health Centre (Toronto)	Toronto Central South		✓	✓
St. Mary's General Hospital, a division of the St. Joseph's Health System	Waterloo Wellington		✓	
St. Michael's Hospital	Toronto Central South		✓	✓
St. Thomas Elgin General Hospital	South West		✓	✓
Stevenson Memorial Hospital	Central		✓	
Strathroy Middlesex General Hospital	South West		✓	
Sunnybrook Health Sciences Centre (Odette Cancer Centre)[1,2]	Toronto Central	✓	✓	✓
Temiskaming Hospital	North East		✓	✓
The Hospital for Sick Children	Toronto Central South			✓
The Lady Minto Hospital	North East			✓
The Ottawa Hospital (The Ottawa Hospital Cancer Centre)[1,2]	Champlain	✓	✓	✓
The Red Lake Margaret Cochenour Memorial Hospital Corporation	North West			✓
The Scarborough Hospital	Central East		✓	✓
Thunder Bay Regional Health Sciences Centre (Regional Cancer Care – Northwest)[1,2]	North West	✓	✓	✓
Tillsonburg District Memorial Hospital	South West		✓	
Timmins and District Hospital	North East		✓	✓
Toronto East Health Network	Toronto Central North		✓	✓
Trillium Health Partners-Credit Valley Site (Carlo Fidani Peel Regional Cancer Centre)[1,2]	Central West and Mississauga Halton	✓	✓	✓
University Health Network (Princess Margaret Cancer Centre)[1,2]	Toronto Central	✓	✓	✓
West Parry Sound Health Centre	North East		✓	✓
William Osler Health System	Central West/Mississauga Halton		✓	✓
Winchester District Memorial Hospital	Champlain		✓	✓
Windsor Regional Hospital (Windsor Regional Cancer Program)[1,2]	Erie St. Clair	✓	✓	✓
Women's College Hospital	Toronto Central South		✓	
Woodstock General Hospital Trust	South West		✓	✓

1. We either visited or spoke with key personnel from this hospital as part of our audit
2. Regional Cancer Centre (also indicated in bold)

Ministry of Health and Long-Term Care

Community Health Centres

1.0 Summary

Ontario's 75 Community Health Centres (CHCs) provide health care and community programs and services designed specifically for their communities. CHCs are mandated to serve populations that have traditionally faced barriers in accessing health services, including the homeless, seniors, refugees, new immigrants and low-income individuals. CHCs are also mandated to provide services at no charge to people without a health card. In the 2016/17 fiscal year, CHCs received $401 million from the Ministry of Health and Long-Term Care (Ministry), through Ontario's 14 Local Health Integration Networks (LHINs).

CHCs stand out from other models of primary care (the routine care that a patient receives, often from a family physician) because they deliver medical services under the same roof as health promotion and community programs. CHCs can employ a team of physicians, nurse practitioners, nurses, counsellors, community workers and other professionals to offer a wide range of these services, examples of which include check-ups, immunizations, diabetic foot care, nutrition counselling, needle exchange, youth leadership training and skills development, parent and child programs, and outreach to isolated seniors. CHC physicians and nurse practitioners are salaried and do not bill the Ontario Health Insurance Plan for health services they render.

While CHCs serve vulnerable populations and can contribute to reducing the strain on the health-care system and other provincial government programs, the Ministry and the LHINs lack critical information to make informed decisions on whether CHCs are cost-effective in providing quality care to their target population groups, and whether the Ministry should expand the network of CHCs or reallocate funding among existing CHCs.

We also found that the Ministry and the LHINs do not examine data on the utilization of CHCs—which can be either over or under capacity—to ensure funding is directed to the areas with the most needs, and to reduce the number of people who might use costlier forms of health care. Knowing the utilization rates can also inform the Ministry in its decisions on the location and number of CHCs to place across the province.

A number of primary-care models coexist in Ontario. These models include CHCs, traditional fee-for-service sole practitioners, family health teams, nurse practitioner–led clinics and Aboriginal Health Access Centres. They deliver essential primary care and sometimes other services such as community programs and interdisciplinary services (offered by professionals such as dietitians, social workers and physiotherapists) to patients. However, the Ministry has not conducted an overall review to determine the most cost-effective model

or mix of models that would best meet the needs of Ontarians, how CHCs could be better utilized, and how CHCs fit strategically within the primary-care system. This would help the Ministry and the LHINs determine whether CHCs are developing along the right path according to plan and population needs.

The following are some of our other significant observations:

- **Split responsibility between Ministry and LHINs on primary care in the last decade is not conducive to effective primary-care planning.** Planning for primary care in Ontario was shared between the Province's 14 LHINs (for CHCs) and the Ministry (for all other primary-care models) for over a decade, making it difficult for either party to have complete information to make informed decisions. This is changing under the *Patients First Act, 2016*, which came into effect in December 2016. LHINs now have the legal authority to fund and manage some elements of primary care in Ontario, including family health teams, nurse practitioner–led clinics and Aboriginal Health Access Centres (currently funded and managed by the Ministry) in addition to CHCs. LHINs also have an expanded mandate to support planning of primary-care services. Transition of the three models to the LHINs had not yet begun when we completed our audit.
- **Utilization of CHC services varies across the province.** While unmet demand exists for services at a number of CHCs, other CHCs were underutilized. We found that 16% of the CHCs were responsible for more patients than their capacity allows, some of the CHCs we visited had people waiting to access primary care and other interdisciplinary services such as mental health and physiotherapy, and some groups among the CHCs' targeted population have grown. In contrast, about half of the CHCs were serving less than 80% of their targeted number of patients. As well, we found that on a weekly basis in 2016/17, each CHC physician or nurse practitioner averaged 31 patient encounters, but some had as few as 16 encounters and some had almost 60 encounters. Without examining this data, the Ministry and the LHINs could not identify areas where resources can be reallocated to make the best use of the investment in the CHC sector.
- **Inter-professional primary care is not available in all LHIN sub-regions in Ontario.** Four LHIN sub-regions (smaller geographic areas located within existing LHIN boundaries) do not have a CHC or any other form of primary care that offers inter-professional care. Patients in the communities without any form of inter-professional care have to visit clinicians located in multiple locations to obtain health services that are routinely provided under one roof, or travel to another sub-region to access inter-professional primary care.
- **CHC staffing model and types of services have not been defined.** Neither the Ministry nor the LHINs defined what professionals, at a minimum, should be included in each CHC, and what minimum services the inter-professional teams should provide to CHC clients. CHCs across Ontario employ anywhere between four and 17 types of health providers, averaging 10 types of providers. Over half of the CHCs did not have a physiotherapist, and some CHCs did not have a social worker or dietitian. Defining the staffing model and the core services that should be offered at each CHC can increase the efficiency and effectiveness of inter-professional teams and improve clients' access to their services.
- **Funding to CHCs is not tied to number of clients served.** The annual base funding that LHINs provide to CHCs is predominantly based on historical funding levels, and not tied to the number of clients the CHCs serve. Funding levels neither increase nor decrease if CHCs are serving fewer clients or are serving more than their capacity allows. As of March 31, 2017, about half of the CHCs were at less than 80% of the targeted number of clients they are

expected to serve, yet these CHCs still received the same level of base funding year after year. Similarly, the LHINs did not increase base funding to those CHCs that exceeded their targeted number of clients.

- **LHINs do not sufficiently monitor CHCs.** Two of the eight CHCs we visited did not provide 24/7 on-call services even though this is a LHIN requirement. As well, the LHINs do not require all CHCs to be accredited (that is, to undergo an external review of their operations in relation to accepted standards of good practice and risk management). We also found that most LHINs do not review accreditation results and do not monitor the accreditation status of CHCs.
- **Meaningful data is not collected to evaluate effectiveness of CHCs.** The Ministry and the LHINs have minimal information to measure whether CHCs have contributed to the improved health of their clients. The LHINs do not require CHCs to track outcomes-based indicators for their clients, such as reduced social isolation (which can be measured via client surveys) and the number of hospital days stayed by CHC clients. In addition, while all CHCs have to prepare an annual quality improvement plan, almost 100 unique performance indicators are found among all CHCs' plans combined, making comparison almost impossible. The CHCs also do not work toward common targets on these performance indicators but set the targets themselves, and not all CHCs reported data on four indicators that are common across the CHCs. Finally, the Ministry has limited access to sector information because it does not have a data-sharing agreement with the CHCs. This issue was raised in our *2000 Annual Report*, was unresolved when we followed up with the Ministry in 2002, and remains unresolved at the time of this audit.

This report contains nine recommendations, consisting of 22 actions, to address our audit findings.

Overall Conclusion

The Ministry of Health and Long-Term Care (Ministry) and the Local Health Integration Networks (LHINs) do not have effective systems and procedures to oversee and co-ordinate Community Health Centre (CHC) programs and services. They do not have sufficient information to ensure that CHCs deliver programs and services in a timely and cost-effective manner that meet community needs, including those of the priority population. At the CHC level, we found that not all CHCs had physiotherapists, dietitians and social workers on staff, as neither the Ministry nor the LHINs have required a core minimum basket of services to be provided at each CHC. As well, CHCs were not consistently providing 24/7 on-call services as required by their LHINs. Finally, while the Ministry and the LHINs measure some aspects of CHC operations, they do not measure the quality and effectiveness of services provided and publicly report on them.

OVERALL MINISTRY RESPONSE

The Ministry of Health and Long-Term Care (Ministry) appreciates the Auditor General's observations and recommendations regarding the Community Health Centres (CHC) program. The recommendations included in the report will support improvements to strengthen accountability and improve access to quality health-care services at CHCs.

The CHC model of care focuses on five service areas that support the government's overarching goal of building a patient-centred health-care system that delivers quality, value and evidence-based care in Ontario: primary care; illness prevention; health promotion; community capacity building; and service integration. In 2013, the CHCs refreshed their model and adopted the Model of Health and Wellbeing, which identified values and principles that unite CHCs: Highest Quality People and Community-Centred Health and Wellbeing; Health Equity and Social Justice; and Community Vitality and

Sense of Belonging. The eight attributes of the model define a collective understanding of what CHCs are: anti-oppressive and culturally safe; accessible; inter-professional, integrated and co-ordinated; community-governed; based on the social determinants of health; grounded in a community development approach; population and needs-based; and accountable and efficient.

CHCs and other inter-professional primary-care teams play an increasingly important role in both caring for patients and as a cornerstone of patient care by ensuring that patients have access to the services and resources they need. This sector is an essential part of the Ministry's strategic direction for Ontario's health-care system—*Patients First: Action Plan for Health Care*. This plan, and the variety of initiatives guided by it, aims to improve access to co-ordinated care that is more responsive and centred on the needs of Ontarians. In this regard, the Ministry recognizes the important contributions made by CHCs and other team-based models of primary care and, through commitments in the 2017 Ontario Budget, will be investing $145 million over the next three years to strengthen Ontario's primary-care sector, including in CHCs, by enhancing their ability to recruit and retain qualified health-care professionals and to expand access to inter-professional primary care in high-need areas of the province. This commitment is in addition to the $85 million in investments to inter-professional teams in the 2016 Ontario Budget.

While significant progress has been made to build a strong foundation of primary-care service in the province, there is more work to be done. The Ministry recognizes the important contributions CHCs make to primary health care in Ontario, and the Ministry will work together with the Local Health Integration Networks (LHINs) to make progress on better supporting and enhancing the performance of Ontario's CHCs. Our detailed responses are provided in the report's specific recommendations.

OVERALL RESPONSE FROM LHINs

Local Health Integration Networks (LHINs) appreciate the comprehensive audit conducted by the Office of the Auditor General of Ontario on the provision of Community Health Centre (CHC) services. LHINs, as health system planners, funders and integrators, will continue to support initiatives that create more timely access to patient-centred care and that promote greater consistency with respect to patient outcomes and quality. We commit to working in collaboration with the Ministry of Health and Long-Term Care (Ministry), CHCs and local clinical leaders to address the recommendations from this report.

Access to primary care, including increased primary-care attachment rates, is a priority for LHINs, as it is vital to improving the health outcomes of Ontarians. In September 2017, all LHINs, enabled by funding from the Ministry, expanded the Health Care Connect Program to further the inclusion of primary care as a foundational element of the local health-care system. Included in this program is the ongoing commitment of all LHINs to dedicate resources for the purpose of assisting Ontarians in finding a family health-care provider if they do not currently have one.

LHINs promote *Patients First: Action Plan for Health Care*, put forth by the Ministry, and welcome the expanded accountability for primary-care planning provided through the *Patients First Act, 2016* . The alignment of additional interdisciplinary primary-care models to LHINs has uniquely positioned LHINs to lead the transformation of primary care in their respective local health-care systems. LHINs look forward to partnering with the Ministry, respective CHCs and other primary-care providers to implement this exciting vision for primary care.

2.0 Background

2.1 Overview of Community Health Centres

Ontario's 75 Community Health Centres (CHCs) are community-governed, not-for-profit health-care organizations that provide primary-care and community health programs for individuals in their communities. CHCs advocate for, and provide programs and services to, individuals who otherwise face barriers to health-care services created by poverty, geographic isolation, language, culture and different abilities. In serving these individuals, CHCs work with the community and develop programs to address social issues that lead to health problems.

An example of such programs is the needle exchange program, which allows drug users to exchange used needles for clean ones, preventing the spread of HIV/AIDS and other diseases, and reducing the risk of used needles ending up in public places such as parks and children's playgrounds. The limited access to medical services in some rural areas is another barrier to primary health care that CHCs are meant to play a key role in overcoming, by serving the general population of these regions who may be lacking other health-care options in their communities. **Appendix 1** provides real-life examples of CHC clients' experiences and the positive impact that CHC services have had on their lives.

CHCs are governed by volunteer community boards. Board members are predominantly clients, community members and community leaders who provide strategic direction for CHCs to operate programs and services that are responsive to local health-care and program needs.

Clinicians such as physicians and nurse practitioners who provide primary care to patients at the CHCs are all salaried (funded by the operating budgets of the CHCs) and are not compensated under the traditional fee-for-service model through the Ontario Health Insurance Plan. CHCs are also mandated to serve clients who are not covered under the Ontario Health Insurance Plan, such as those who have no legal status to stay in Canada. (Nurse practitioners are registered nurses with advanced university education who can diagnose, order and interpret diagnostic tests, prescribe treatments including medications, and perform medical procedures.)

The goal of CHCs is to keep people in the communities where they live in good health. CHCs support the Province's health-care action plan—*Patients First: Action Plan for Health Care*—by helping to improve access to health care; providing co-ordinated and integrated care in the community; and providing the education, information and transparency patients need to help make the right decisions about their health.

All CHCs in Ontario follow the values and principles of the Model of Health and Wellbeing, as shown in **Figure 1**. This model is based on principles adapted from the World Health Organization and the 14 social determinants of health (these

Figure 1: Model of Health and Wellbeing

Source of data: Association of Ontario Health Centres and the Ministry of Health and Long-Term Care

Notes:

- The values and principles of Community Health Centres (CHCs) are presented in the outer ring.
- The model includes eight attributes (inner circle) that guide CHCs' work and approach.

are underlying conditions that help determine a person's health status, such as income, education, employment, food insecurity/security, housing, social exclusion/inclusion, gender, race and disability). The model was published in May 2013 by the CHC Executive Director Network, consisting of the chief executive officer or executive director from each CHC in Ontario.

2.2 Clients of Community Health Centres

CHCs serve about 500,000 clients each year, or about 4% of Ontarians. Ontario's CHCs are located in both rural areas and urban centres (usually at-risk neighbourhoods). In some rural areas, where access to health care is more limited, CHC clients can be the general population of the catchment area. In most other cases, however, CHC clients are those in high-risk population groups, such as the homeless, refugees, new immigrants, clients with complex mental health issues, low-income earners and those without health insurance. About 1.5% of CHC clients have no type of health insurance at all.

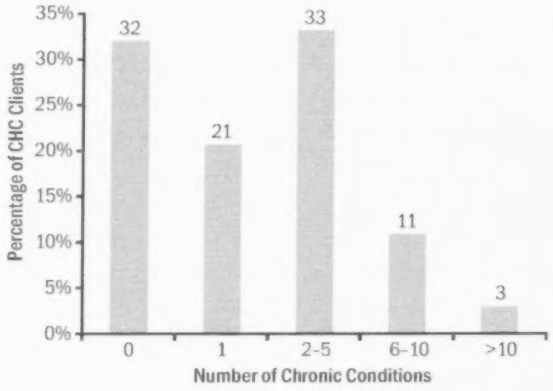
By serving vulnerable people, CHCs can contribute to reducing the strain on the health-care system and other provincial government programs. Social services agencies often have nowhere else to refer their clients, some of whom are in high-risk population groups, other than to CHCs that provide clinical and community services for these groups. The Ministry of Health and Long-Term Care (Ministry) considers these groups as priority populations, defined as those who:

- face geographic, cultural, language or other barriers to accessing an appropriate range of primary-care services, and/or
- have a higher burden or risk of ill-health due to the social determinants of health (explained in **Section 2.1**).

Many CHC clients have multiple health conditions, as shown in **Figure 2**. A study published in 2012 that compared primary-care models in Ontario noted that CHC clients are 84% more

Figure 2: Proportion of Community Health Centre (CHC) Clients with No or Multiple Chronic Conditions, March 2017

Source of data: Association of Ontario Health Centres



complex in terms of their needs than the general population in Ontario. Related to this point, 23% of CHC clients are seniors, compared to about 17% in the general population. **Figure 3** breaks out the socio-demographics of CHC clients into those in the low-income bracket, seniors and the uninsured as at March 31, 2017.

2.3 Expansion and Current Locations of Community Health Centres

Ontario's first CHC was established in the early 1970s. CHCs are not unique to Ontario—they operate in every Canadian province, including territories, sometimes under different names. Canada's first CHC was the Mount Carmel Health Centre in Winnipeg, which opened in 1926.

The Ministry, in consultation with relevant stakeholders, determines the location and number of Ontario's CHCs. The last major expansion of the CHC network in Ontario was announced in 2004 and 2005. At the time of our audit, Ontario had 75 CHCs operating in 145 locations (which includes 70 satellite sites). **Figure 4** shows their locations. **Appendix 2** shows key historical events relating to Ontario's CHCs.

Figure 3: Profile of Community Health Centre Clients, March 2017

Source of data: Association of Ontario Health Centres

Figure 3a: Breakdown of Clients by Self-Reported Individual Annual Income

Figure 3b: Breakdown of Clients by Age

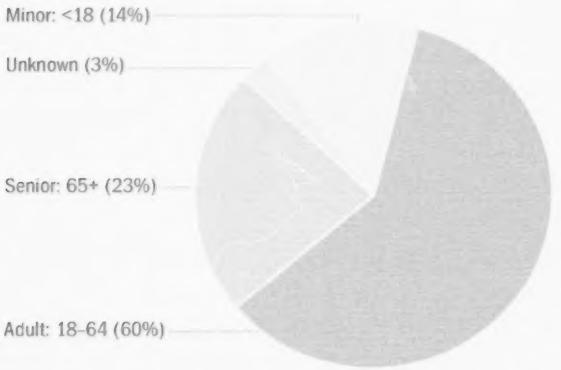
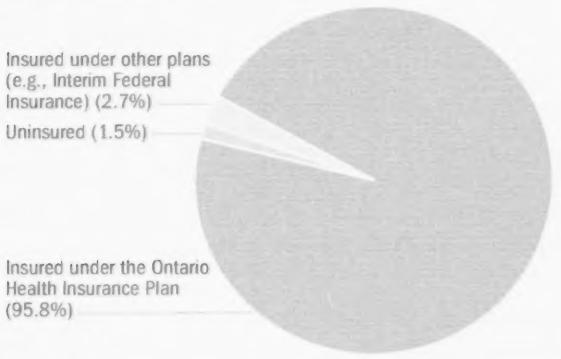


Figure 3c: Insured Status of Clients


Insured under other plans (e.g., Interim Federal Insurance) (2.7%)
Uninsured (1.5%)
Insured under the Ontario Health Insurance Plan (95.8%)

Note: Data is only for clients rostered as primary-care patients and for interdisciplinary care at Community Health Centres (CHC). Does not include clients who only participate in CHC community programs.

2.4 Programs and Services Offered at Community Health Centres

2.4.1 Programs and Services Provided at CHCs

CHCs provide both primary-health and community health programs to clients. These programs fall into five areas that the Ministry associates with the government's overarching goal of building a patient-centred health-care system, and include:

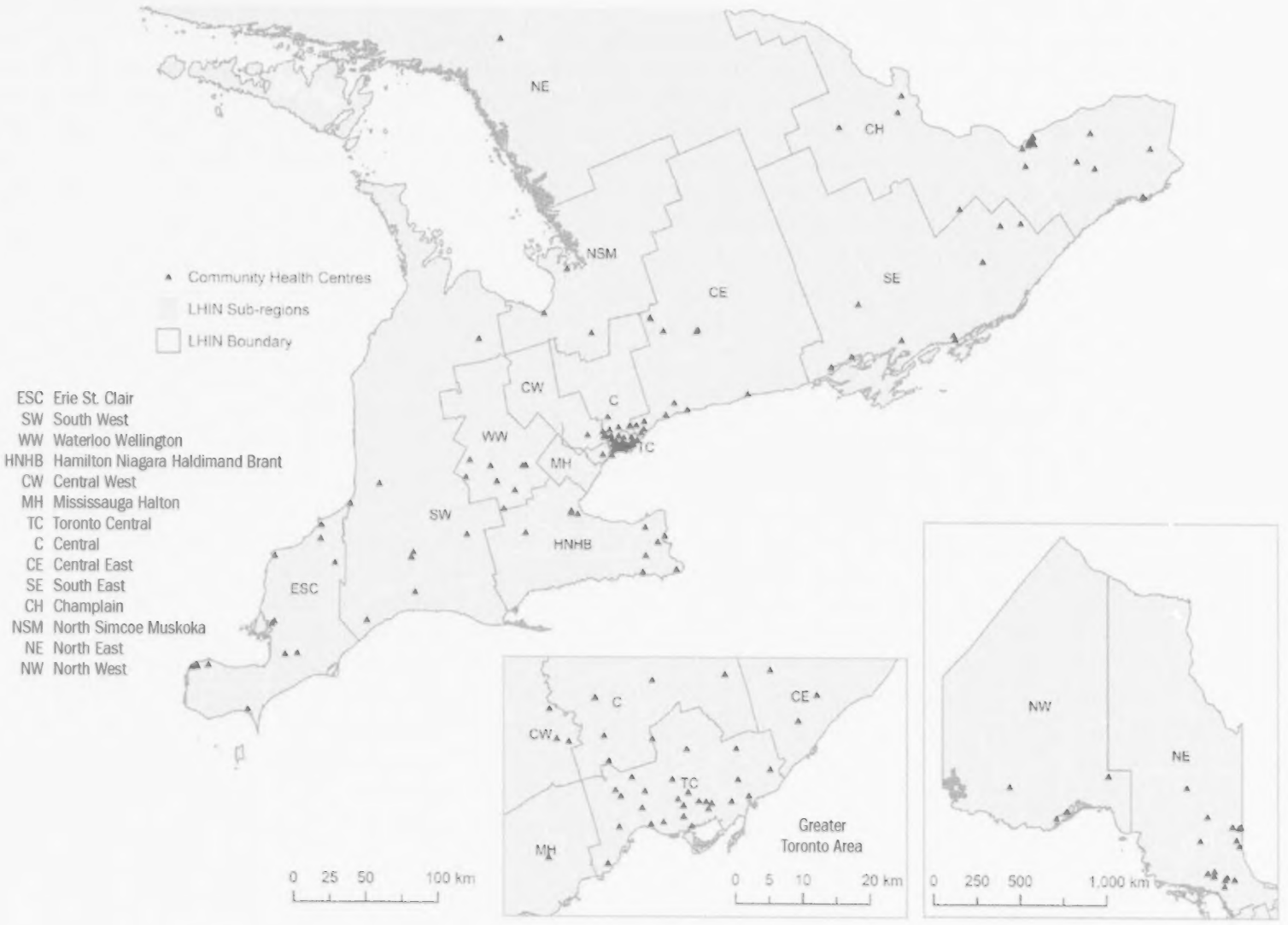
- primary care (the routine care that a patient receives—for example, visits with a physician or nurse practitioner, check-ups, immunization, ultrasounds and blood tests);
- illness prevention (for example, nutrition counselling and diabetic foot care);
- health promotion (for example, programs on stress management, smoking cessation and exercise);
- community capacity building (for example, information and education on community resources and how to access them, youth leadership training and skills development, parent and child programs, and violence prevention); and
- service integration (for example, connecting with other health-service providers).

As each CHC is governed by its own community board, each CHC can determine the type and mix of services that address these five areas and does not have to offer exactly the same services.

The inter-professional primary care (explained in **Section 2.4.2**) and community health programs that CHCs offer could be funded by the Ministry, other ministries or other levels of government. For instance, CHCs may offer diabetes education programs, smoking cessation programs and mental health support programs (funded by the Ministry), prenatal nutrition programs (funded by the federal government), legal clinics (funded by the Ministry of the Attorney General), and housing support services (funded by the municipal government). CHCs often partner with external organizations

Figure 4: Locations of Ontario's Community Health Centres

Source of data: Ministry of Health and Long-Term Care



such as immigration settlement agencies and others that focus on broader health and social issues, to ensure they target their services to those who might face barriers to health care and provide their clients with access to programs that are not available within the CHCs.

Clients may access some or all of the services that CHCs offer. About half of the CHC clients access primary care from the CHC's physicians or nurse practitioners. The other half do not access primary care at the CHC but use its interdisciplinary services and/or community health programs.

2.4.2 Professionals Who Deliver Care and Services at CHCs

The type of health care that CHCs provide is called inter-professional health care. With this model, patients can obtain a full range of health care all under one roof from a team of health-care professionals, which may include a doctor, a nurse practitioner, dietitians, chiropodists (foot specialists) and physiotherapists, and another group of professionals who support clients, such as health promoters, health-system navigators and social workers. The availability of these professionals depends on the CHC.

Other inter-professional primary-care models, some of which serve different demographics than CHCs, also exist in Ontario. **Appendix 3** provides a comparison of CHCs with these other inter-professional models, which include:

- Aboriginal Health Access Centres (10 in Ontario): centres that offer a blend of traditional Indigenous approaches to health and wellness, primary-care and health-promotion programs in culturally appropriate settings.
- Nurse Practitioner–Led Clinics (25 in Ontario): clinics that provide comprehensive and co-ordinated primary-care services to people of all ages. Nurse practitioners are the lead primary-care providers of these clinics. In addition to collaborating physicians, other members of the health-care team may include registered nurses, dietitians, social workers, occupational therapists and mental health workers.
- Family Health Teams (184 in Ontario): teams of family physicians, nurse practitioners, registered nurses, social workers, dietitians and other professionals who work together (but may not operate out of the same location) to provide primary health care for their community. Each family health team is set up to serve local health and community needs.

2.5 Key Players Involved in Community Health Centres

2.5.1 Ministry of Health and Long-Term Care (Ministry)

The Ministry is ultimately responsible for monitoring and reporting on the health system as a whole. The Ministry's role is to provide overall direction and leadership for the health system, focusing on developing legislation, standards and policies to support its strategic directions, and ensuring the Local Health Integration Networks (LHINs) fulfill the Ministry's expectations, as outlined in contractual documents between the LHINs and the Ministry. The Ministry funds almost all of the CHCs' program costs through Ontario's 14 LHINs, and provides capital funding directly to all CHCs.

2.5.2 Local Health Integration Networks (LHINs)

CHCs receive the majority of their funding from Ontario's 14 LHINs, which were established by the *Local Health System Integration Act, 2006*, with a mandate to create an integrated health system to improve the health of Ontarians. In addition to CHCs, LHINs also fund and oversee other health-service providers such as hospitals, long-term-care homes and community mental health and addiction services agencies. Each LHIN region has at least one CHC.

Under the *Patients First Act, 2016*, which came into effect in December 2016, LHINs now have the legal authority to fund and manage some elements of primary care in Ontario, including family health teams, nurse practitioner–led clinics, and Aboriginal Health Access Centres (currently funded and managed by the Ministry) in addition to CHCs. The LHINs also have an expanded mandate to support planning of primary-care services. Transition of the three models to the LHINs had not yet begun when we completed our audit.

The LHINs enter into an annual accountability agreement with each CHC. The agreement outlines the terms and conditions that CHCs must comply with in delivering health services to their clients.

2.5.3 Association of Ontario Health Centres

Nearly all CHCs (74 of the 75) are members of the Association of Ontario Health Centres (Association), a member-funded association based in Toronto with a staff of under 20. The Association also represents other community-governed primary-care organizations, including all 10 Aboriginal Health Access Centres, 10 of the Province's community family health teams, and about half of the Province's nurse practitioner–led clinics. In addition to receiving membership fees from its members, the Association has also received a total of about $27 million from the Ministry since 1999/2000 for various projects, most of which were related to information technology. The Association supports the CHCs through policy and stakeholder relations, information management, and research and evaluation.

2.6 Funding

In the fiscal year 2016/17, the Ministry, through the LHINs, provided $401 million of program funding to CHCs, representing under 2% of all payments to LHIN-managed health-service providers. This $401 million represents an increase of 114% from 10 years ago in 2007/08, when CHC program funding was $187 million. **Figures 5a** and **5b** show the year-over-year trend of CHC program funding as provided by the Ministry, the number of CHC locations, and the number of CHC clients. In 2016/17, the Ministry also provided just over $16 million of capital funding for CHCs.

Some CHCs also receive funding from other sources such as charities and foundations, other provincial ministries and other levels of government. In 2016/17, CHCs reported to the Ministry that they received about $96 million from these other sources.

3.0 Audit Objective and Scope

Our audit objective was to assess whether the Ministry of Health and Long-Term Care (Ministry), in partnership with the Local Health Integration Networks (LHINs) and the Community Health Centres (CHCs), had effective systems and procedures in place to:

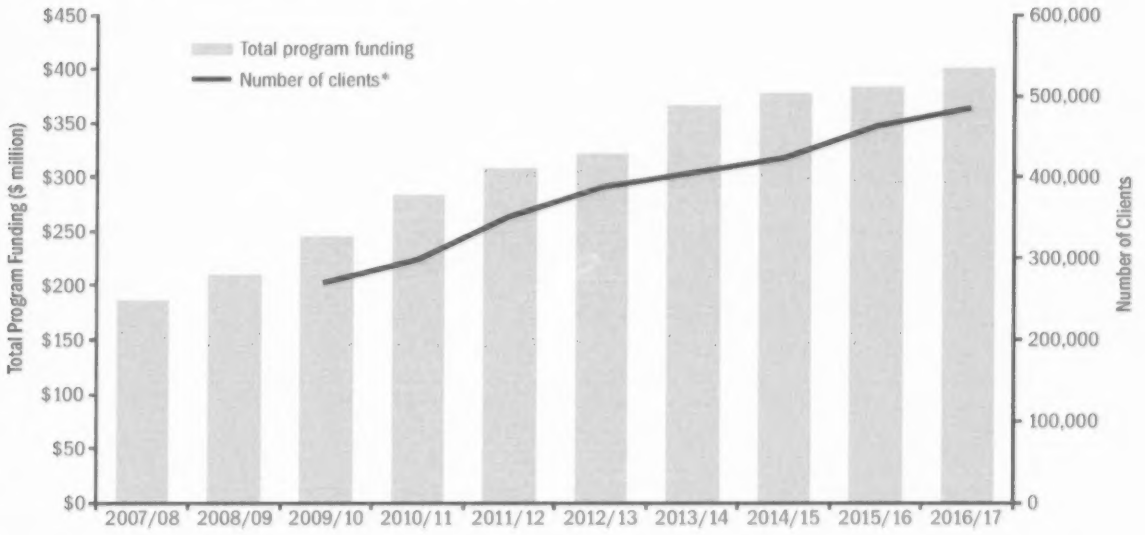
- oversee, co-ordinate and deliver programs and services through CHCs in a timely and cost-effective manner that meets community needs, including those of the priority population; and
- measure and publicly report on the quality and effectiveness of services provided.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at the Ministry and the four LHINs we visited during the audit reviewed and agreed with the suitability of our audit objective and related criteria as listed in **Appendix 4**.

We focused on activities of the CHCs in the two-year period ending March 31, 2017, and considered relevant data and events in the last 10

Figure 5a: Number of Clients and Total Community Health Centre Program Funding from the Ministry of Health and Long-Term Care, 2007/08–2016/17

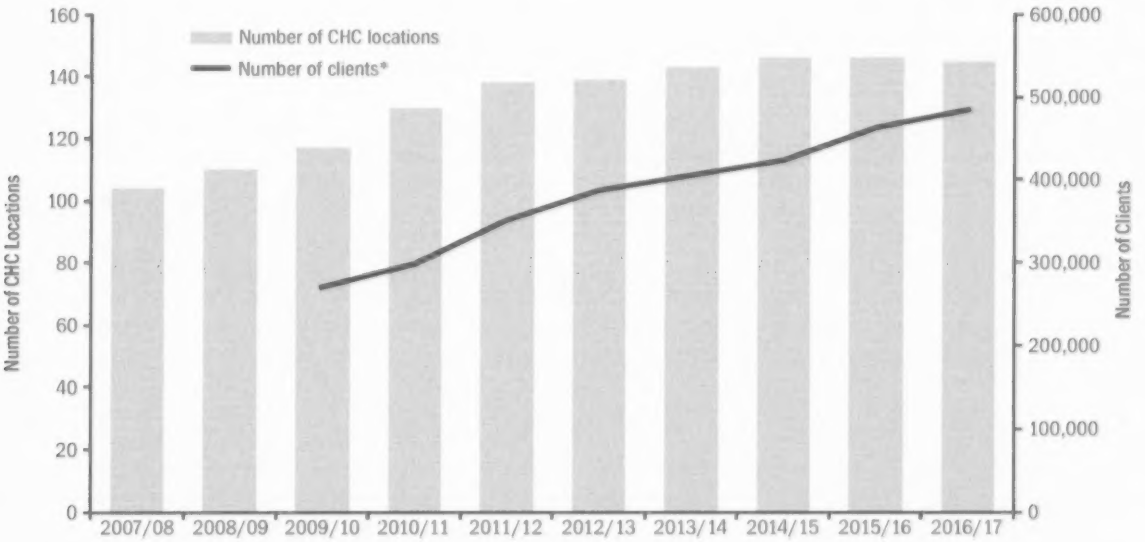
Source of data: Association of Ontario Health Centres, Treasury Board Secretariat



* Number of clients not tracked prior to 2009/10.

Figure 5b: Number of Clients and Number of Community Health Centre (CHC) Locations, 2007/08–2016/17

Source of data: Association of Ontario Health Centres, Treasury Board Secretariat



* Number of clients not tracked prior to 2009/10.

years. We conducted our audit from January to June 2017, and obtained written representation from the Ministry and the LHINs that effective November 16, 2017, they have provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

In conducting our work, we reviewed documents obtained from and interviewed staff at the following Ministry branches:

- Primary Health Care Branch, which provides expertise and strategic advice to CHCs to improve equitable and timely access to primary care to all CHCs;
- LHIN Liaison Branch, which develops, negotiates and manages accountability relationships with Ontario's 14 LHINs;
- Financial Management Branch, which reconciles Ministry funding with CHCs' spending at year-end; and
- Health Capital Investment Branch, which provides funding to CHCs to repair, upgrade and expand their facilities.

The Ministry provides transfer payments to Ontario's 14 LHINs, which in turn contract with CHCs to provide primary-care and community services to clients in their communities. In conducting our audit, we visited four of the 14 LHINs—Toronto Central (corporate office in Toronto), South West (corporate office in London), North Simcoe Muskoka (corporate office in Orillia) and Champlain (corporate office in Ottawa). Their combined expenditures on CHCs in the 2016/17 fiscal year were almost 50% of the overall Ministry expenditures in this area. In addition, we visited eight CHCs across these four LHINs, located in both urban and rural communities, where we toured the facilities, reviewed relevant documents, and interviewed senior management, front-line staff, board members and some CHC clients to obtain their perspectives on ways to improve program delivery. At four of the eight CHCs, we performed additional audit procedures on selected aspects of the audit.

The Association of Ontario Health Centres (Association) represents almost all CHCs in Ontario and maintains data on behalf of almost all CHCs from their electronic medical record systems. To obtain an overall perspective on the CHC sector, we met with representatives from the Association, and obtained and analyzed selected operational and aggregated anonymous client profile data.

In an effort to better understand the issues facing CHCs in Ontario, we met with representatives from the Canadian Association of Community Health Centres and the Association of Family Health Teams of Ontario. As well, we reviewed studies and reports issued by organizations such as the Primary Healthcare Planning Group (a group established in 2010 to draft and build consensus on a strategy for strengthening primary health care in Ontario, chaired by an Assistant Deputy Minister from the Ministry and including membership from the Ontario Medical Association, Registered Nurses' Association of Ontario, Ontario College of Family Physicians, and the Association), the Conference Board of Canada and the Institute for Clinical Evaluative Sciences. We also obtained statistics on complaints received by Ombudsman Ontario on CHCs and considered these in the conduct of our audit.

We engaged an expert with knowledge of the Ontario health system and in particular Community Health Centres to assist us on this audit.

4.0 Detailed Audit Observations

4.1 Lack of Evaluation on Whether CHCs Are Meeting Needs of Communities

4.1.1 No Process to Identify Whether CHCs are Over- or Underutilized

Neither the Ministry of Health and Long-Term Care (Ministry) nor the LHINs have a process to evaluate whether CHCs are meeting the demands of their

communities. We found that neither party has done any regular assessment that considers how many people the CHCs actually serve compared to the number of people they are expected to be responsible for, where wait lists exist for various CHC services, and the growing populations of targeted client groups. Such an analysis would inform how many CHCs should be funded and where they should be located across Ontario to best meet the needs of Ontarians.

As discussed in **Section 2.3**, in 2004 and 2005, the Ministry announced an expansion of a total of 49 CHCs and satellite sites. According to the Ministry, at the time of our audit, 30 of these sites were substantially complete, 12 were in progress, and seven had not submitted required documentation to the Ministry to proceed with their expansion. The Ministry explained that the CHC projects still in progress more than a decade later were either still in the project planning phase or under construction.

We requested that the Ministry provide the analysis it conducted back in 2004 and 2005 to determine where these new CHCs and satellite locations should be located. The Ministry could not produce this analysis. It also informed us that the projects were submitted on a proposal basis by the sponsoring organization, which can be an existing CHC or another health-service organization. In other words, the Ministry did not assess utilization and the unmet needs of the communities involved prior to proceeding with establishing these new sites across the province.

Number of Patients CHCs Responsible for Differed from Target

The capacity of a CHC is largely driven by the actual number of primary-care clinicians who work at the centre and a patient-complexity score that differs from one CHC to the next. The Association of Ontario Health Centres (Association) calculates how many patients each CHC is expected to roster (or register) in its primary care, using a formula developed by the Institute for Clinical Evaluative Sciences that considers complexity of patient needs, which is then applied to the number of primary-care clinicians (physicians and nurse practitioners). A CHC that has more complex-needs patients would be expected to roster fewer patients than a CHC with healthier patients. This calculation is updated annually for each CHC. Overall, CHC clients are 84% more complex in terms of their needs than the general population in Ontario.

According to this patient caseload calculation formula, all CHCs are supposed to be responsible for about 405,000 patients in total. The number of patients that each CHC is supposed to be responsible for (called panel size) varies according to the complexity of patients rostered at the CHC and the number of clinicians the CHC employs. The panel size excludes clients who only use the CHC's non-primary-care services, such as community programs and interdisciplinary services offered by professionals such as social workers and dietitians.

As at March 31, 2017, CHCs across Ontario have registered about 335,300 patients, or 83% of the targeted panel size, into primary care. While 16% of CHCs were at or exceeding their expected target—with one at 172% of its expected patient caseload—about half of CHCs were at less than 80% of their targeted panel size.

We also examined how many patients CHCs actually served to better understand utilization, because even though a person is registered with a CHC, use of CHC services could vary depending on that person's ongoing health needs. For instance, a person could simply be registered as a patient at a CHC but rarely use its services, while some clients with complex needs (such as seniors) could use CHC services more frequently.

The best information we could use as a proxy of actual use was the number of patient encounters for each CHC physician or nurse practitioner. Based on Association data, on a weekly basis in 2016/17, each full-time equivalent CHC physician or nurse practitioner had 31 patient encounters (direct face-to-face interactions with patients), but some had as few as 16 encounters and some had almost 60 encounters. However, the LHINs have not

investigated the reasons why some CHCs were not seeing as many patients as others. While the differences could be attributed to the complexity of the patient population they serve, an analysis of patient encounters between CHCs that serve patients with similar complexity scores would identify opportunities where resources and funds can be reallocated among CHCs.

Wait Lists Existed for Some CHC Services

None of the four LHINs we visited required CHCs to report wait-list data, so they were unaware of which CHCs had wait lists, how many people were waiting to access CHC services, and their wait times. As a result, these LHINs could not use this information to help them determine whether some CHCs have been serving their communities better than others. Even though the Ministry had been responsible for determining the number and locations of CHCs across the province, like the LHINs it also had not collected data on CHC wait lists. Consequently, the Ministry did not have complete information to inform planning and future investment decisions. We discuss wait lists in detail in **Section 4.2.1**.

Population of Targeted CHC Clients Has Grown

Even though the Ministry made progress in increasing the number of CHCs and satellite sites with its announcements in 2004 and 2005 (see details in **Appendix 2**), the population groups that are expected to use CHC services have grown in size since then.

More than 20,000 Syrian refugees settled in Ontario between November 2015 and May 2017, and cases of social assistance (people in temporary financial need receiving assistance from the Ontario Works program) grew by 13% between 2007/08 and 2016/17. In addition, the annual immigration level is expected to increase by 29% between 2016 and 2041.

One CHC we visited during the audit indicated that in the coming years it would not be able to accommodate the needs of its community, as the population in its catchment area has grown and has aged, and their needs are complex. This CHC already had a wait list for primary care at the time of our visit and was at 119% of its capacity.

4.1.2 Overall Comparison of CHCs and Other Models Not Conducted

Separate Responsibility for Various Primary-Care Models Not Conducive to Proper Planning

A number of primary-care models exist in Ontario. Most Ontarians are familiar with the sole-practitioner physician model, but other models, notably the inter-professional primary-care models where a physician or a nurse practitioner works with other types of professional staff to provide health services to patients, also exist. We described those models in **Section 2.4.2**. In 2011, the Primary Healthcare Planning Group (described in **Section 3.0**) recommended to the Ministry that all Ontarians should be attached to inter-professional primary care—CHCs, family health teams, nurse practitioner–led clinics and Aboriginal Health Access Centres. The Planning Group further noted that "it is not recommended to develop new delivery models."

The responsibility for inter-professional primary-care models has been split between the Ministry and the LHINs in the last decade, making it difficult for either party to have complete information to make informed decisions about overall primary-care planning in Ontario. Before 2007, CHCs and other primary-care providers were under the responsibility of the Ministry. LHINs were established by the *Local Health System Integration Act, 2006*. Starting in 2007, the Ministry devolved oversight of CHCs to the LHINs, but retained responsibility for the other inter-professional primary-care models. The Ministry explained that it did so because compared to other models, CHCs were already in a mature state at that time.

With the passage of the *Patients First Act, 2016*, LHINs now have the authority to fund and manage all inter-professional primary-care models. At

the time of our audit, the Ministry had not begun transitioning funding and managing responsibilities of the three models to the LHINs, and had not established any timelines for doing so.

Lack of an Assessment of All Primary-Care Models

A comprehensive assessment of all primary-care models in Ontario would help determine how these models, including the CHCs, can best be used to effectively deliver primary care to Ontarians. Several Ontario-based studies have also called for an evaluation of all primary-care models in Ontario:

- Between 2012 and 2015, the Ministry commissioned the Institute for Clinical Evaluative Sciences and the Conference Board of Canada to conduct four studies that compared the various primary-care models to identify differences in patient demographics, utilization of health-care services and performance. Based on these studies, CHCs were not conclusively better than the other models—while CHCs outperformed other models in areas including having a higher proportion of female patients obtaining a Pap smear (a procedure to detect cervical cancer) and being better at managing their patients' chronic diseases, their patients were also found to have higher rates of hospital readmission and emergency department visits. The studies noted that these results could reflect the demographics that CHCs serve, which include a considerably larger proportion of people who are low-income, new to Canada, or have multiple health conditions. The authors of one of these studies also noted the need for further evaluation of the performance of Ontario's primary-care models in relation to costs and comparisons with models elsewhere.
- In 2011, the Primary Healthcare Planning Group recommended that the Ministry develop a clear and measurable statement of goals and objectives for which the primary-care system should be held to account, and develop a long-term strategy to continue the integration of interdisciplinary health professionals into primary-care practice.
- In 2001, the Ministry commissioned two external consultants to conduct a strategic review of CHCs. One of the objectives of this strategic review was to "situate future development of CHCs within an overall plan that is aligned with key ministry strategies and government directions, including reform of the primary-care system." That review, done 16 years ago, was the last such Ministry review of the CHCs, and it resulted in 11 recommendations to improve CHC service delivery. One of the recommendations made was that the Ministry should ensure that CHCs play a strategic role in primary-care reform.
- In our last audit of CHCs in 2000, we recommended that the Ministry evaluate the efficiency and effectiveness of CHCs in providing quality primary health care and compare the results to other primary-care models.

The Ministry informed us that the provincial plan for primary care is a component of *Patients First: Action Plan for Health Care*, which is the strategic plan for the overall health-care system in Ontario. *Patients First: Action Plan for Health Care* includes specific direction for strengthening primary care, including timely access to a primary-care provider, facilitating better access to specialists, better co-ordinated care for patients with complex conditions, allowing nurse practitioners to prescribe assistive devices, and providing more rehabilitative therapy for seniors. However, it does not specify how CHCs fit strategically within the primary-care system, in order to help the Ministry and the LHINs determine whether CHCs are developing along the right path according to plan and population needs. The plan also lacks performance metrics to measure achievement of and progress toward the stated goals of the plan.

Four LHIN Sub-Regions Lacked Inter-Professional Primary Care

In accordance with new requirements under the *Patients First Act, 2016*, in early 2017 the Ministry endorsed 76 sub-regions (smaller geographic areas located within existing LHIN boundaries) to allow LHINs to better plan, and be more responsive to, local health needs.

At our request, the Ministry asked the LHINs to identify how many of the 76 sub-regions did not have a CHC. The result of this analysis showed that 35 of the 76 sub-regions did not have a CHC, as shown in **Figure 6**. As well, four of these sub-regions do not have any other form of inter-professional primary care, such as family health teams or Aboriginal Health Access Centres.

As a result, patients in these communities do not have the benefit of receiving inter-professional primary care similar to patients in other parts of the province. Instead, they have to visit clinicians located in multiple locations to obtain health services that are routinely provided under one roof at a CHC, or travel to another sub-region to access inter-professional primary care. As well, the sole-practitioner physicians in these communities may be overwhelmed by clients with complex needs.

In the 2017 Ontario Budget, the government announced that it would invest $15 million in 2017/18 to create new or expand existing inter-professional teams so that all 76 sub-regions across Ontario will have a team.

RECOMMENDATION 1

To inform decisions on how to use investment in Community Health Centres (CHCs) to better meet the needs of Ontarians, we recommend that the Local Health Integration Networks:

- develop and implement a process to obtain and regularly update capacity and utilization information, considering how many people the CHCs actually serve compared to the number of people they are expected to be responsible for, wait-list information, and the growing populations of targeted client groups; and
- examine the appropriateness of implementing the recommendation by the Primary Healthcare Planning Group to attach all Ontarians to inter-professional primary care, and develop and implement a plan in this regard if considered appropriate.

RESPONSE FROM LHINs

LHINs support an evidence-based approach to investing in health-care services and ensuring equitable access to care for all Ontarians. Through accountability agreements held with the LHINs, CHCs provide LHINs with regular performance updates, including information pertaining to the number of patients receiving care. These reports are monitored by the LHINs to ensure all health-service providers, including CHCs, are utilizing public funds for the intended purpose. LHINs will consider utilization and other demand information in making decisions about the CHC sector.

LHINs also support the recommendation by the Primary Healthcare Planning Group and are committed to supporting Ontarians to attach to inter-professional primary care. In 2017, all LHINs, enabled by funding from the Ministry, expanded the Health Care Connect Program to further the inclusion of primary care as a foundational element of the local health-care system.

MINISTRY RESPONSE

The Ministry is committed to ensuring that Ontarians have access to quality comprehensive and continuous primary-care services regardless of where one lives in the province. The 2017 Ontario Budget includes a commitment to support the expansion of inter-professional care teams so that all 76 sub-regions across the province have a team. To support this initiative the Ministry is also in the process of developing a methodology to assess the

Figure 6: Allocation of Community Health Centres in Local Health Integration Networks and Sub-Regions, March 2017

Source of data: Ministry of Health and Long-Term Care

LHIN	LHIN Sub-Region	Without a CHC	Without Any CHCs, FHTs, NPLCs and AHACs
Erie St. Clair	Windsor		
	Tecumseh Lakeshore Amherstburg LaSalle	X	
	Essex South Shore	X	
	Chatham City Centre		
	Rural Kent	X	
	Lambton		
South West	Grey Bruce		
	Huron Perth	X	
	London Middlesex		
	Elgin		
	Oxford		
Waterloo Wellington	Guelph-Puslinch		
	Cambridge-North Dumfries		
	Kitchener-Waterloo-Wellesley-Wilmot-Woolwich		
	Wellington	X	
Hamilton Niagara Haldimand Brant	Hamilton		
	Burlington	X	
	Niagara North West	X	
	Niagara		
	Brant		
	Haldimand Norfolk	X	
Central West	North Etobicoke Malton West Woodbridge		
	Dufferin	X	
	Bolton-Caledon	X	X
	Bramalea		
	Brampton	X	
Mississauga Halton	East Mississauga*	X	
	Halton Hills	X	
	Milton	X	
	Oakville	X	
	North West Mississauga	X	
	South West Mississauga	X	X
	South Etobicoke	X	
Toronto Central	West		
	Mid-West		
	North		
	Mid-East		
	East		

LHIN	LHIN Sub-Region	Without a CHC	Without Any CHCs, FHTs, NPLCs and AHACs
Central	North York West		
	North York Central	X	
	Western York Region		
	Eastern York Region	X	
	South Simcoe	X	
	Northern York Region	X	
Central East	Peterborough City and County	X	
	Haliburton County and City of Kawartha Lakes		
	Northumberland County		
	Durham North East		
	Durham West	X	
	Scarborough North	X	
	Scarborough South		
South East	Rural Hastings		
	Quinte		
	Rural Frontenac, Lennox & Addington	X	
	Kingston		
	Leeds, Lanark & Grenville		
Champlain	Central Ottawa		
	Western Ottawa	X	
	Eastern Champlain		
	Western Champlain		
	Eastern Ottawa	X	
North Simcoe Muskoka	Barrie and Area		
	South Georgian Bay		
	Couchiching	X	
	Muskoka	X	
	North Simcoe		
North East	Nipissing-Temiskaming		
	Sudbury-Manitoulin-Parry Sound		
	Algoma	X	
	Cochrane		
	James and Hudson Bay Coasts	X	X
North West	District of Kenora		
	District of Rainy River	X	
	District of Thunder Bay	X	
	City of Thunder Bay		
	Northern	X	X
Total		**35**	**4**

Note: LHIN: Local Health Integration Network, CHCs: Community Health Centres, FHTs: Family Health Teams, NPLCs: Nurse Practitioner-Led Clinics, AHACs: Aboriginal Health Access Centres

* East Mississauga has a satellite location for a CHC based in the Toronto Central LHIN.

need for comprehensive primary care across LHIN sub-regions and the extent to which this primary-care need is being met. The Ministry is currently in the process of fulfilling these initiatives and expects to have made final decisions on areas of investment by spring 2018. This work applies to all primary-care models.

The Ministry recognizes the importance of team-based inter-professional care to ensure that Ontarians have access to comprehensive primary care. In recognition of this, the Ministry's goal is to have a family health care provider for every Ontarian who wants one and to provide more patients with faster and more convenient access to this care. However, the Ministry also recognizes that not every Ontarian requires access to team-based inter-professional care and that primary-care provision should be aligned with the needs of a community's population.

RECOMMENDATION 2

To ensure Local Health Integration Networks (LHINs) can support primary-care services planning as soon as possible in accordance with the *Patients First Act, 2016* and to inform decisions on how to use investment in Community Health Centres (CHCs) to better meet the needs of Ontarians, we recommend that the Ministry of Health and Long-Term Care:

- document the rationale for continuing capital projects that are part of the 2004 and 2005 CHC expansion announcements that are not yet under way, and, if appropriate, allocate any available resources to areas of greater need;
- establish timelines to transition the funding and oversight responsibilities of all inter-professional primary-care models to the LHINs; and
- develop performance metrics to measure achievement of and progress toward the goals stated in the primary care component of *Patients First: Action Plan for Health Care*, and evaluate how the various primary-care models, including CHCs, can best be used to effectively deliver primary care to Ontarians and meet these primary-care goals.

MINISTRY RESPONSE

There was no established deadline to submit proposals as part of the 2004 and 2005 expansion. Currently, the Ministry would consider only funding LHIN-endorsed proposed capital projects. LHIN endorsement ensures that the proposed projects fit into current local health-planning needs. Therefore, for any of the seven outstanding health-service providers to be considered by the Ministry for a capital project for expansion or relocation, the LHIN would first need to review the request and assure the Ministry through its endorsement that the proposed project aligned with current local needs.

The Ministry welcomes the recommendation to establish timelines to transition the funding and oversight responsibilities of inter-professional primary-care models from the Ministry to the LHINs. The Ministry will work with LHINs and sector partners to prepare for transitioning responsibility for funding and oversight responsibilities of inter-professional primary-care models. The Ministry recognizes that any timeline must respect legislative obligations and operational requirements as well as the government's commitment to engage with Indigenous partners for Indigenous-governed inter-professional primary-care models.

In support of *Patients First: Action Plan for Health Care*, the Minister of Health and Long-Term Care has released Mandate Letters to LHINs to articulate provincial priorities and expectations. These Mandate Letters are publicly available and include specific sections related to primary care, including how LHINs should work with primary-care providers (such as CHCs) to deliver primary care to Ontarians in an effort to meet the goals outlined in *Patients*

First: Action Plan for Health Care. The Ministry will continue to assess LHIN progress in these areas as well as indicators specific to CHCs that exist in the Multi-Service Accountability Agreements between LHINs and CHCs.

The Ministry will also work with the LHINs in examining the feasibility of developing standard measures that would support the strategic direction for strengthening primary care as outlined in *Patients First: Action Plan for Health Care*. This work will be conducted as part of the regular cycle of renewing accountability agreements between the Ministry, LHINs and primary-care models, including CHCs.

4.2 CHCs Fall Short of Consistently Providing Timely and Accessible Services to Clients

Depending on their needs, CHC clients can access a variety of programs and services, including primary care, interdisciplinary care and community programs, all under one roof. As part of our audit, we reviewed complaints related to CHCs received by Ombudsman Ontario in the last three years, and found that about one in five complaints received related to delayed access to services. In our audit, we found similar issues with access to services, with clients at some CHCs unable to access care on a timely basis, and some services not being available at all.

Overall, we found that over 70% of CHCs offer telemedicine services that provide patients access to a wider range of health services, such as ophthalmology, that may not be available at the CHC.

Nevertheless, we noted that some CHCs had difficulty meeting the demand for primary care and interdisciplinary services in their communities, and not all CHCs provide 24/7 on-call services as required.

4.2.1 Ministry and LHINs Lack Information on Actual Demand for CHC Services

Neither the Ministry nor the LHINs had complete information on how many people are waiting to become CHC clients. We also found that clients at some CHCs had to wait to access interdisciplinary services and community programs.

During our audit, we found that of the eight CHCs we visited, half were not able to meet the primary-care demand in their community. Two of these CHCs maintained wait lists; the other two did not.

Of the two CHCs that had a wait list for primary care, one CHC had 60 people waiting for up to six weeks; the other had about 500 people waiting for up to 15 months to become clients of the CHC. Both were exceeding their capacity.

Of the other two that did not maintain a wait list, one was only accepting homeless people and prioritizing people who were already clients of its community programs into primary care; the other chose to refer individuals seeking primary care to Health Care Connect, a Ministry service that refers Ontarians who do not have a physician to a primary-care provider who is accepting new patients.

The CHCs indicated that individuals who are waiting to be accepted at the CHC as primary-care patients likely go to walk-in clinics or hospital emergency rooms.

We also found that clients at five of the eight CHCs we visited experienced delays in receiving care from the interdisciplinary health team, such as from a dietitian, a foot care specialist or a physiotherapist. At the time of our audit, these CHCs had between 25 and 83 clients waiting to receive interdisciplinary care, with wait times ranging from two to five months.

As well, we found that two CHCs had wait lists for some of their community programs, such as cooking classes, an anxiety support group, and exercise and falls prevention. One CHC's wait list for an exercise and falls prevention program had 90 people.

4.2.2 24/7 On-Call Services Not Consistently Available across CHCs

The CHCs' accountability agreement with the LHINs requires CHCs to provide and actively promote on-call physician services on a 24/7 basis for their ongoing primary-care clients. Similarly, the Primary Healthcare Planning Group also recommended that comprehensive primary-care providers, including CHCs, have the ability to respond to patients' health problems 24 hours a day, seven days a week.

The requirements document that the Association provides to all CHCs indicates that on-call services should be made available to ongoing primary-care clients for advice, information, self-care, scheduled appointments, and for referral to community services and to public hospitals' emergency departments, where appropriate. The document presents several options for providing 24/7 services, noting that on-call services can be pooled across two or more CHCs, shared with other primary-care agencies, or contracted out to another primary-care agency or physician(s).

When CHCs do not offer 24/7 on-call services, patients may have no other means to receive medical advice or assistance after hours than to visit the hospital emergency department, which is a costlier option and may not be warranted for the level of care they need.

During our audit, we found that two of the eight CHCs we visited do not provide 24/7 services. Although CHCs can obtain written consents from the LHIN to be exempted from this requirement, one did not obtain exemption, and its LHIN was not aware of this.

RECOMMENDATION 3

To ensure that Community Health Centre (CHC) clients have timely and equitable access to health and community services, we recommend that the Local Health Integration Networks:

- collect and review wait-list information on CHCs' primary-care and other significant programs to address unmet needs; and
- identify which CHCs do not provide 24/7 on-call services and require them to do so.

RESPONSE FROM LHINs

The LHINs support the need to ensure Ontarians have timely and equitable access to quality care within available resources, including equitable access to CHC services. CHCs offer a multitude of services, only some of which may have unmet need. LHINs support collecting and reviewing wait-list information for primary care and other important CHC services.

LHINs will monitor which CHCs do not provide 24/7 on-call services and work with those CHCs to ensure they comply with program requirements.

4.3 Minimum Services and Staffing Model Not Defined

CHCs employ many different professionals—physicians, nurse practitioners, dietitians, health promoters, social workers and many more—who serve CHC clients with different health-care needs. A staffing model that supports the right numbers and best mix of providers can increase the efficiency and effectiveness of inter-professional teams and improve clients' access to their services. We found that neither the Ministry nor the LHINs defined what professionals, at a minimum, should be included in each CHC, and what minimum services the inter-professional teams should provide to CHC clients. Defining these can help CHC clients across the province to have more equitable access to CHC services, and help CHCs better direct workforce planning.

Minimum or Core Set of Services Not Defined

In Ontario, neither the LHINs nor the Ministry provide guidance on a minimum set of interdisciplinary services. Both the Strategic Review of the

Community Health Centre Program commissioned by the Ministry in May 2001 and the Primary Healthcare Planning Group in December 2011 recommended that CHCs' inter-professional teams provide a full basket of services similar to the list issued in 1996 by the Provincial Co-ordinating Committee on Community and Academic Health Services Relations (a Ministry-appointed committee). **Figure 7** outlines the services that the committee recommended.

The Ministry supported the CHC sector in developing five service components and compiled a list of the sample services within those five components, as shown in **Figure 8**. However, this list does not identify the services that all CHCs must have at a minimum.

Figure 7: Minimum Basket of Services in Comprehensive Primary Care, Recommended by the Provincial Co-ordinating Committee on Community and Academic Health Science Centre Relations, 1996

Source of data: George Southey, MD, FCFP, *Performance Measurement in Comprehensive Primary Care: Different Perspectives from Different Approaches* (May 27, 2012)

Item	Service	Description
1	Health assessment	• determination of patient's current health status and potential for health problems by collecting information on physical and psycho-social condition and lifestyle
2	Clinical evidence-based illness prevention and health promotion	• clinical prevention services for patients and families, based on evidence-based guidelines, such as periodic health exams and immunization • approach (rather than specific set of services) that focuses on broad determinants of health, underlying causes of illness, and factors that affect ability to cope, and that looks at entire population • education and support and possibly community development, advocacy and education
3	Appropriate interventions for episodic illness and injury	• in case of illness or injury, timely access to primary care services through simple telephone advice, direct patient contact, and/or referrals to secondary and tertiary care • appropriate follow-up
4	Primary reproductive care	• counselling for birth control and family planning, education, screening and treatment for sexually transmitted diseases, ante- and post-natal care, and labour and delivery • in absence of full in-house maternal care, relationship with agency that provides service
5	Early detection as well as initial and ongoing treatment of chronic illnesses	• range of services, including anticipatory care, monitoring to prevent/treat flare-ups, ongoing education for patient and family, and follow-up at appropriate intervals • knowledge about community-based services
6	Care for the majority of illnesses (with specialists as needed)	• comprehensive care to meet all primary medical-care needs, i.e., for all health problems and illnesses
7	Education and supports for self-care	• encouragement of greater self-reliance, self-care and mutual aid, through health education, counselling, links to resources in community, access to phone health information, advice and triage services
8	Support for hospital care and care provided in-home and in long-term care facilities	• in some communities, general practitioners/family physicians to deliver or co-ordinate and monitor hospital care • as minimum, involvement in planning pre- and post-hospital care, including linking patients at discharge with home care and other community services • support for care and treatment at home and in long-term care • links with home-care programs, appropriate referrals, and liaison and consultation with home-care co-ordinators and providers

Item	Service	Description
9	Arrangements for 24/7 response	• ability to respond to patients' health problems 24 hours a day, 7 days a week • direct response, not through answering machine or instruction to go to emergency
10	Service co-ordination and referral	• co-ordination of community, secondary and tertiary care
11	Maintenance of comprehensive patient health record	• management of client information in order to facilitate co-ordination and referral
12	Advocacy	• support, referral and liaison for patients aware of need but unable to organize help • supportive listening, accompaniment if necessary, writing of letters, making of telephone calls, and/or speaking on patients' behalf and organizing of case conferences
13	Primary mental health care including psycho-social counselling	• recognition of emotional and psychiatric problems, comprehensive management planning, awareness of resources in community, knowledge of when to refer patients to and/or work with other mental-health providers
14	Co-ordination and access to rehabilitation	• arrangements for appropriate rehabilitative care • referral of patients to rehabilitation therapists, participation in treatment planning and follow-up, education and advocacy, "care map" leading to return to function/school/work
15	Support for the terminally ill	• home visits and capability for 24-hour response when necessary for care and advice • co-ordination of medical care with home care and other community agencies • arranging of timely access to hospital care and proper discharge

Because the service agreement between the LHINs and the CHCs does not outline a minimum list of services, services offered by various CHCs differ widely. In particular, we found that several CHCs could not provide the required level of support within their organization for their patients who require physiotherapy and mental health care. Even though these CHCs can still refer patients to other health-care organizations, these patients are at a disadvantage compared to other CHCs' patients who can access these services all under one roof at their CHCs.

For physiotherapy, over half of the CHCs did not provide this service in 2016. In the case of mental health care, about 15% of the complaints received by the Ontario Ombudsman pertaining to CHCs in the last three years relate to inadequate support provided to CHC clients with mental illness. According to the Association, about 6% of CHC clients have serious mental illness. One sector representative noted that primary care cannot be done in isolation from mental health and addictions, and that there are many patients with mental health issues.

While we noted in our audit that all eight CHCs we visited have formed partnerships with other mental health services providers, such as hospitals and community agencies, to assist clients with mental illness, half of them indicated that they had difficulty meeting clients' mental health needs. One of these CHCs further noted that it could not find clinicians with the prerequisite knowledge to prescribe medication for mental illness. As a result, some mental health clients of these CHCs may seek care from hospitals, where care is more expensive.

Mix of Professionals Not Defined

CHCs across Ontario employ anywhere between four and 17 types of health providers, averaging 10 types of providers. **Figure 9** shows the different

Figure 8: Service Areas and Sample Services Offered by Community Health Centres

Source of data: Ministry of Health and Long-Term Care

Service Area(s)	Sample Services Included within Service Area(s)
(1) Primary Care, (2) Illness Prevention	• clinical laboratory • diagnostic imaging • non-invasive cardiology laboratories • general clinic • therapy clinic (general, foot care, naturopathy, pharmacy consultation, nutrition, physiotherapy, occupational therapy, counselling, speech and language pathology, massage therapy) • oral health clinic • chronic disease clinic (general, diabetes, asthma, hepatitis C and/or HIV/AIDS)
(3) Health Promotion, (4) Community Capacity Building	• community engagement • chronic disease education, awareness and prevention (general, diabetes, asthma/chronic obstructive pulmonary disease (COPD), hepatitis C and/or HIV/AIDS) • diabetes strategy–regional co-ordination centre • personal health and wellness–mental wellness, health promotion, personal health practices and coping skills • oral health • healthy child development (prenatal, well baby, school health, parenting advice, family planning and family well-being) • youth development (sexual health, substance use, education, employment readiness, social skills specifically targeted at youth population) • injury prevention • healthy living workshops • life skills education • sexual health • stress management • exercise • culturally specific programming • violence prevention • anger management • harm reduction • needle exchange • smoking cessation • client support services (crisis intake, prevention and management; information and referrals to external agencies; individual advocacy; case management; stable housing; homelessness; food availability; access to employment; community justice, conflict resolution and social support programs; identification clinics, food and furniture banks, and information and education about community resources and how to access them)
(5) Service Integration	• health system infrastructure policies • strategic planning • knowledge transfer with the Ministry of Health and Long-Term Care, Local Health Integration Networks and individual organizations • Health Links initiatives (to optimize co-ordination of services between health-care providers to improve quality of care for high-needs patients) • formal research (activities geared toward building scientific knowledge, generating knowledge and evidence to inform and support the community health centre's strategic plan, programs, and services and related to program evaluation, quality improvement, promoting research capacity for multiple stakeholders to build, promote and support effective mechanisms for knowledge translation and exchange for and between researchers, policy makers, service providers, service users and community members)

Figure 9: Types of Community Health Centre Personnel Who Provide Direct Care and Services to Clients, 2016

Source of data: Association of Ontario Health Centres

Position[1]	# of CHCs[2]	% of CHCs
Nurse Practitioners	74	100
Physicians	73	99
Dietitians/Nutritionists	69	93
Registered Nurses	68	92
Social workers	68	92
Other staff[3]	60	81
Health promoters	59	80
Registered Practical Nurses	49	66
Community development workers	45	61
Chiropodists[4]	35	47
Physiotherapists	32	43
Counsellors	28	38
Outreach workers	25	34
Occupational therapists	15	20
Pharmacists	12	16
Dental staff	11	15
Psychiatrists	10	14
Lab technicians	8	11
Chiropractors	6	8
Settlement workers	5	7
Physician assistants	4	5
Psychologists	4	5
Traditional healers	4	5

1. Includes positions that are funded from sources other than Local Health Integration Networks; excludes medical secretaries, administrative staff and management.
2. For all CHCs that were members of the Association of Ontario Health Centres (one CHC was not a member).
3. Other staff may include a variety of positions such as community legal workers, early childhood workers, parent support workers and other CHC workers who interact directly with clients.
4. Foot specialists.

types of health providers that work in CHCs and the percentage of CHCs that employ these professionals.

Neither the Ministry nor the LHINs define the composition of the inter-professional health teams in a CHC that would align with a core basket of services. We recognize that CHCs should have the flexibility to hire the professionals who would help meet their local community's needs, but without a defined core minimum staff complement, CHC clients in some communities may be short-changed in having access to a core group of inter-professional staff, such as physiotherapists, social workers and dietitians. In our 2000 audit of CHCs, we recommended that the Ministry develop guidelines to assist CHCs in determining cost-effective combinations of health-care staff.

The Primary Healthcare Planning Group in 2011 recommended that the Ministry develop a formal mechanism to track and analyze the activities of interdisciplinary health professionals to better understand the impact they are having in primary care. The group noted that the integration of these professionals can enable improvements in the areas of quality, access, accountability and efficiency.

We found that beyond capturing the number of interactions that CHC interdisciplinary health professionals have with their clients, the Ministry does not track or analyze the activities of these professionals as recommended by the Primary Healthcare Planning Group.

RECOMMENDATION 4

To ensure Community Health Centre (CHC) clients across Ontario have access to the full range of health services and interdisciplinary health professionals and to better direct workforce planning, we recommend that the Local Health Integration Networks, in conjunction with the Ministry of Health and Long-Term Care:

- assess whether all CHCs should offer a core set of services and update the accountability agreement between the CHCs and the LHINs accordingly; and
- develop a mechanism to better understand the range of services offered by CHCs' interdisciplinary health professionals, and determine whether CHCs should employ a core complement of staff that offer interdisciplinary health services.

RESPONSE FROM LHINs

The LHINs recognize that the communities and the needs of those communities served by CHCs are unique, which may mean that equitable community services do not translate to the same service offering. LHINs will work with the Ministry to assess the appropriateness of defining a set of core CHC services, including interdisciplinary health professionals. LHINs support the planning of health-care services at the sub-region level and will continue to support CHC programs that are tailored to the unique needs of their respective patients.

MINISTRY RESPONSE

The Ministry understands that the needs of patients and communities vary considerably across Ontario and that CHCs have an important role in designing and delivering services and programs that meet these diverse needs through the five service areas. Careful review is required to determine whether or not further standardizing a core set of services provincially beyond these five areas for inclusion into LHIN-CHC accountability agreements supports or detracts from the roles that CHCs perform in tailoring their services based on patient, community and population need. The Ministry will work with LHINs and sector partners to assess the relative benefits of this approach.

The Ministry acknowledges data gaps on the range of services offered by CHCs and is working to improve in this area. The type of inter-professional health providers delivering services in CHCs reflects the diverse needs of the patients and communities they serve. Similar to the above, the Ministry will work with LHINs and sector partners to assess the relative benefits of determining whether a CHC should employ a core component of inter-professional staff as part of the regular cycle of renewing accountability agreements between the Ministry, LHINs and CHCs.

4.4 Ministry and LHINs Lack Useful Information on CHCs

The Association collects information from each CHC's electronic medical record system and analyzes this data to provide information reports. But the Ministry does not have access to this information because it does not have a data-sharing agreement with the CHCs. This issue was raised in our *2000 Annual Report*, was unresolved when we followed up with the Ministry in 2002, and remains unresolved at the time of this audit.

CHCs and primary-care services in general lack data to measure their impact on the health of the clients they serve. Health Quality Ontario, the Province's adviser on health-care quality, was tasked in 2011 with an initiative to develop better performance measures for primary care. This work was still under way at the time of our audit.

We also found that the Ministry and the LHINs do not collect meaningful information from CHCs to measure whether they have contributed to improved health of their clients. As a result, the Ministry and the LHINs cannot determine whether patients receive quality services and at a lower cost, and whether the Ministry should make additional investments in CHCs.

We look at these issues in detail in the following subsections.

4.4.1 CHCs Use Different Electronic Medical Record Systems

At the time of our audit, the 75 CHCs across the province did not use the same electronic medical record system to record details and data about their interactions with patients. Altogether, five systems were in use, with the majority of CHCs using one common system. In our 2016 audit "Electronic Health Records' Implementation Status," we noted that the Ministry did not require all community-based physicians to use standardized electronic medical record software, and individual community-based physicians who want to manage

their patients' health information electronically can select the software of their choice. As a result, even though the Association aggregates client and provider data from CHCs to generate sector-wide information on socio-demographic characteristics (such as income level, age and insured status) and on health-care providers employed by CHCs (such as the number of physicians, dietitians or social workers, and the number of clients they saw), it could not do so for three CHCs, as two of them do not use an electronic medical record system that is compatible with the Association's system. The remaining CHC is not a member of the Association.

The most common system used was sold to another vendor in September 2016, and the old system that was in use was being transitioned to a new system under the new vendor during our audit. The Association felt that it would be beneficial to have all CHCs use this new system—for instance, having a common system would allow for reporting in a consistent manner—but cannot compel all CHCs to use it because each CHC is governed by its own board and not accountable to the Association. At the time of our audit, the Association did not know how many CHCs will adopt the new system. One of the eight CHCs we visited was undecided at the time of our audit, but was leaning toward the use of another system used by other local physicians; another CHC had decided that it would not switch to the new system. Neither the Ministry nor the LHINs have promoted the use of systems that are compatible with the mainstream system to facilitate the collection and analysis of sector data.

4.4.2 Ministry and LHINs Continue to Have Limited Insight into CHC Sector Data and Analysis

The Ministry provided about $24 million to the Association between 2011/12 and 2016/17 to acquire and implement electronic medical record systems at CHCs. With this funding, the Association could collect and analyze clinical information from those CHCs that use a compatible system, and provide summary anonymized clinical information to CHCs. CHCs in turn could review their own and each other's information to compare statistics on areas such as the number of client interactions, client demographics and diagnoses.

Despite having made this investment, the Ministry cannot routinely access CHC client and service data maintained by the Association, and must specifically request this data. Having this information is important because the Ministry does not otherwise have information about the services that are provided by CHCs. Unlike other primary-care models, physicians and other clinicians at CHCs do not bill the Ontario Health Insurance Plan, which provides data on each health-care service rendered.

In our previous audit of CHCs in 2000, we recommended that the Ministry expedite the resolution of any access-to-information issues. The Ministry advised us in our 2002 follow-up report that a data-sharing agreement between the Ministry and CHCs would be finalized in June 2002. The Ministry indicated that it established such an agreement with the Association in 2002 to use the Association's management information system, but that system has since been decommissioned. At the time of this audit, the Ministry has yet to resolve data access issues. The Ministry informed us that it was awaiting the development of a common database that contains sector data before finalizing the data-sharing agreement. However, we noted that this common database has already been in place since 2008 and almost all CHCs have been using it. At the time of our audit, the Ministry was in the process of implementing a data-sharing agreement with the CHCs. The LHINs are not a party to this agreement, limiting their ability to effectively oversee CHCs, as we discuss in **Section 4.5**.

4.4.3 Effectiveness of CHCs Not Known

CHCs Do Not Collect Data to Measure Program Outcomes

Information that the Ministry or the LHINs collect from CHCs is not meaningful in evaluating whether

CHCs have contributed to the improved health of their clients. As a result, the Ministry and the LHINs cannot determine whether patients receive quality services, and at a lower cost, and whether the Ministry should make additional investments in CHCs.

While the CHCs report certain information to the LHINs as required in the accountability agreement, such as the number of patients screened for cancer, number of full-time equivalents of staff, number of individuals served, and number of service provider interactions, these indicators for the most part measure CHC outputs. The LHINs do not require CHCs to track outcomes-based indicators, such as reduced social isolation (which can be measured via client surveys) and number of hospital days stayed by CHC clients. Such indicators would allow the LHINs to measure the impact that team-based care has on a client's health. Even though Health Quality Ontario collects some outcome information from CHCs, not all CHCs report on this information (we discuss this issue in **Section 4.5.2**). (Health Quality Ontario is the Province's adviser on health-care quality and is entrusted with monitoring and reporting on how the health-care system is performing, and with providing guidance on important quality issues and assessing evidence to determine what constitutes optimal care.) Some CHCs we visited during the audit explained that collecting information to evaluate patient outcomes is difficult because CHCs cannot easily access data from hospitals and other primary-care providers due to privacy concerns.

Primary-Care Performance Measurement Framework Not Yet Implemented

To respond to a recommendation made by the Primary Healthcare Planning Group, Health Quality Ontario in 2014 developed the Primary-Care Performance Measurement Framework. The framework identifies nine domains, 112 practice-level and 179 system-level measures (at the community, regional and provincial levels) to assess performance in primary care. For example, one measure used in the effectiveness domain is the number of patients with asthma whose symptoms have been under control during the past four weeks. **Appendix 5** sets out the framework and the nine domains that align with Health Quality Ontario's attributes of a high-performing health-care system (access, patient-centredness, integration, effectiveness, focus on population health, efficiency, safety, appropriate resources and equity). (These nine domains have since evolved to six domains that capture similar areas.)

In its report, Health Quality Ontario notes that data is available for only 15 (13%) of the recommended practice-level measures and 73 (41%) of the system-level measures. It also noted the need to develop additional infrastructure to support the data collection, analysis and reporting to address the data gap.

The Ministry informed us that this framework serves as the foundational component of provincial efforts to collect data and measure performance from primary-care providers, including the CHCs, and that it has prioritized the measures and adopted a subset of the recommended measures—18 of the 112 practice-level measures and 12 of the 179 system-level measures. However, data was still not available for all of these measures and the Ministry has not established the timelines for implementation of all the prioritized measures.

Limited Information on Community Programs

CHCs offer community programs such as Pathways to Education (a national program to improve high-school graduation rates in low-income communities), smoking cessation, senior recreation programs and healthy eating programs to their clients. These programs are important, as many are tied to the underlying factors that influence people's health (called social determinants of health, which were explained in **Section 2.1**). To assess whether community programs have made a positive impact on participants, most CHCs conduct surveys. Beyond that, CHCs find measuring

effectiveness of community programs challenging. Some CHCs told us that they cannot easily attribute improvement in a client's health to their community programs. Other challenges reported include:

- CHCs do not consistently maintain data on clients participating in community programs—many community program clients access the community programs only but not primary care from the CHC. As a result, their data is not collected in the CHC's electronic medical record system, which is typically used only for primary-care services. Some CHCs are starting to obtain data from clients participating in community programs, and some are working on adding community program client data to their electronic medical record system, but for the most part, data on community programs is not electronically tracked.
- CHCs do not consistently track community program information in the community initiatives reporting tool—the reporting tool, developed by the Association at a cost of about $100,000, is designed to track community initiatives for CHCs to facilitate knowledge and best practices sharing, and evaluation of the initiatives. Three of the eight CHCs we visited do not use this tool, with one opting for its own in-house tracking tool, citing the reasons that the inputs are time-consuming to complete and the value of the tool is not evident. We examined how many CHCs across the province actively used this tool and found that one-quarter of CHCs do not enter any information in it.

At the time of our audit, the Association was working on new indicators or measurements that will help evaluate the impact of community programs/initiatives.

RECOMMENDATION 5

To ensure it has useful and complete information to measure the effectiveness of Community Health Centres (CHCs), we recommend that the Ministry of Health and Long-Term Care (Ministry), in conjunction with the Local Health Integration Networks (LHINs):

- develop and implement mechanisms to obtain and analyze information from CHCs that operate electronic medical record systems that may not be compatible with the main system used by most CHCs;
- finalize the data-sharing agreement with CHCs and assess the feasibility of sharing the data with LHINs;
- establish timelines for collecting information for the remaining measures the Ministry has prioritized according to the Primary-Care Performance Measurement Framework; and
- develop performance indicators that measure outcomes of CHC clients for all types of services provided, collect this information and analyze the results.

MINISTRY RESPONSE

The Ministry agrees that improved access to data would enable a more comprehensive measurement of the effectiveness of CHCs. The Ministry has initiated activities to address data gaps and is working with the CHC sector to find ways of collecting data from CHCs, including data housed in their Electronic Medical Records, for this purpose.

The mechanism through which data can be shared, such as data-sharing agreements, requires a review of requirements and legislation governing the collection, use and disclosure of personal health information prior to implementation. The Ministry will work toward finalizing a data-sharing agreement with CHCs. The Ministry expects this review and preliminary implementation steps to be undertaken by the fall of 2018. In addition, the Ministry will research if access issues to CHC data for LHINs can be addressed; work will begin in the upcoming year to examine the feasibility of this initiative.

As part of the *Patients First: Action Plan for Health Care*, the Ministry has worked with Health Quality Ontario (HQO) to improve reporting on the primary-care sector through HQO's annual Measuring Up report, in which the Primary-Care Performance Measurement Framework informed this work. The Ministry will work to build on this progress by working with partners to establish timelines to evaluate the benefit of additional priority indicators and measures. The Ministry recognizes that any timeline must respect legislative obligations and operational requirements, such as any pending Multi-Service Accountability Agreements, Ministry-LHIN Accountability Agreements, and Physician Service Agreements.

CHCs are required to include a variety of performance data and supporting documentation as part of their Multi-Service Accountability Agreements with their respective LHINs, including the number of active clients registered, volume of services delivered by type of health-care provider, major health issues and priority populations addressed, major achievements, strategic plans and organizational goals. The Ministry will work with the LHINs to develop business practices that allow for these activities to be tied to outcome measures to facilitate improved performance management in the CHC sector. The Ministry will work together with the LHINs and CHCs within existing accountability structures to review existing performance measures and consider different or additional measures, if necessary. Further, it will establish timelines for collecting this information against these measures if different or additional measures are necessary.

RESPONSE FROM LHINs

The LHINs support this recommendation and encourage the Association of Ontario Health Centres to continue the development and implementation of its Business Intelligence Reporting Tool. LHINs will continue to work with CHCs to strengthen client outcome measurement and continue to evolve accountability instruments to achieve optimal performance.

4.5 Limited Oversight of Community Health Centres

In lieu of conducting formal site inspections of CHCs, the Ministry and LHINs instead rely on the accreditation process (an evaluation by an independent and qualified accreditor) and the quality improvement plans (CHC-prepared documents that include results of patient surveys) to monitor CHCs' effectiveness and quality of services.

We found that the LHINs do not require all CHCs to be accredited. We also found that most LHINs do not review accreditation results and do not monitor the accreditation status of CHCs.

As well, while all CHCs have to prepare an annual quality improvement plan for purposes of quality assurance, they choose their own performance indicators, and as a result almost 100 unique performance indicators are found among all CHCs' plans combined, making comparison almost impossible. In addition, the CHCs do not work toward common targets but set the targets themselves. We also found that not all CHCs reported data on four indicators that are common across the CHCs (CHCs are required to report three of these four indicators as part of their accountability agreement with the LHINs).

We look at these issues in detail in the following subsections.

4.5.1 Accreditation Encouraged but Not Tracked and Issues Not Reported to LHINs

The LHINs do not require CHCs to be accredited. According to the Community Health Centre Guidelines issued by the Association in November 2013, "it is expected that all CHCs commit to participate in an accreditation process."

Accreditation provides an external review of an organization's operations in relation to accepted standards of good practice and risk management. During an accreditation process at a CHC, accreditors from an external accreditation organization (there are several such organizations commonly used by health-care organizations in Ontario) perform a site audit to ensure the CHC is compliant with standards. These standards relate to areas such as governance, organizational planning and performance, risk and safety, and programs and services. CHCs that obtain accreditation pay for this from their operating budget. The accreditation status is typically renewed every four years.

Obtaining accreditation can provide assurance to the LHINs that funding provided to CHCs has gone toward services that meet standards to ensure patients are safe and receiving quality care. We noted the following concerns with CHCs' accreditation:

- Only one of the four LHINs we visited requires CHCs to report their accreditation status. The other LHINs did not have information on which CHCs in their region are accredited.
- Two of the eight CHCs we visited are not accredited, but expect to be accredited within the next few years.
- The LHINs do not require CHCs to submit the accreditation review report, or report any issues noted by the accreditors during the accreditation process. As a result, the LHINs cannot use this opportunity to identify systemic issues and encourage CHCs to rectify them.
- Governance training for CHC community-based boards helps assist board members who may not have board or governance experience and lends support to the governance portion of the accreditation process. Two of the four LHINs we visited offer governance training to health-service providers in their regions, including CHCs, but the other two do not.

RECOMMENDATION 6

To improve their oversight of Community Health Centres (CHCs), we recommend that the Local Health Integration Networks:

- monitor accreditation statuses of all CHCs; for those CHCs that are not accredited, encourage them to either achieve accreditation or put in place alternative mechanisms for quality assurance;
- identify areas that accreditation reviewers suggested should be improved through a review of CHCs' accreditation reports and work with CHCs to rectify the issues; and
- make available governance training and promote it to CHCs.

RESPONSE FROM LHINs

The LHINs continue to support a focus on quality improvement of health services and recognize that accreditation, which is a voluntary process, is one of the many tools available to benchmark performance and support improved quality. LHINs are committed to developing a local health system that is rooted in high-quality, patient-centred care and will continue to work with all health-service providers, including CHCs, to ensure quality assurance mechanisms are in place.

LHINs will work toward making available governance training to CHCs, leveraging existing efforts that are already in place at some LHINs.

4.5.2 Quality Improvement Process Results Not Assessed for Systemic Concerns

CHCs Began Submitting Quality Improvement Plans in 2013/14

Quality improvement plans are documents that include performance indicator results, comments on these results, and quality commitments made by a health-care organization. Under the *Excellent Care for All Act*, Health Quality Ontario receives

quality improvement plans for the purpose of quality assurance from hospitals. Health Quality Ontario also receives quality improvement plans from certain health-service providers who are obligated to submit them as part of their contract with either the Ministry or the LHIN. The requirement for CHCs to submit quality improvement plans to Health Quality Ontario began in 2013/14 as outlined in the accountability agreement between CHCs and the LHINs.

CHCs report performance indicators related to such issues as access, patient experience and cancer screening rates, the percentage of clients who are able to see a doctor or nurse practitioner on the same day or next day, and the percentage of eligible clients who are up to date in screening for breast cancer.

Annually, upon receiving the quality improvement plans, Health Quality Ontario compiles the results and submits a summary report to the Ministry.

Ministry and LHINs Do Not Review Quality Improvement Plan Results to Determine CHCs' Quality of Care

In our last audit of the CHCs in 2000, we recommended that the Ministry conduct regular reviews of CHCs to ensure that CHCs review their quality of care. In this audit, the Ministry indicated to us that it has reviewed CHCs' quality of care, and that it accomplished this by reviewing a summary report that Health Quality Ontario prepares based on CHCs' submitted quality improvement plans. The Ministry told us that it would use the report to determine where CHCs can improve performance and where further investments could be made.

However, we found that this publicly available summary report aggregates information on all primary-care organizations that submit quality improvement plans, including family health teams, Aboriginal Health Access Centres, nurse practitioner–led clinics and CHCs, so the Ministry cannot possibly use the summary report to measure the CHCs' own performance. In other words, the Ministry does not publicly report on CHCs' performance.

We also found that the Ministry does not review the individual quality improvement plans in detail to identify quality issues at specific CHCs, or follow up with CHCs on these annual results to ensure underperformance is corrected. This review and follow-up was inconsistent among the LHINs we visited.

We reviewed all CHCs' quality improvement plans from 2016/17 and noted the following:

- CHCs report on almost 100 unique indicators, only four of which are common across CHCs. While the variety could be attributed to differences among CHCs and may promote the development of new common indicators, this lack of commonality makes comparisons or benchmarking of CHCs challenging.
- We reviewed the 2016/17 results of the four common indicators. We found that not all CHCs reported complete information, and CHCs that did report the information needed to improve on their performance. **Figure 10** shows the 2016/17 results for these indicators.
- Of the almost 100 indicators, only four reported indicators measured patient outcomes. For two of these indicators, only about half of the CHCs reported data in these areas, and few met their performance targets. For the other two indicators, only one CHC reported on each of them. Health Quality Ontario informed us that these indicators are either optional or reported on by only select CHCs. **Figure 11** shows the 2016/17 results for these indicators.
- Performance targets are set by the CHCs themselves, unless the indicators are specified in their accountability agreement with the LHIN, in which case the LHIN-developed target is used. Some CHCs may set a high standard for their performance, while others set a much lower standard. For example, in the case of the indicator that measures the percentage of patients who saw their primary-care provider within seven days after discharge from

Figure 10: Results on 4 Common Indicators Reported by Community Health Centres (CHCs) in Quality Improvement Plans, 2016/17

Source of data: Health Quality Ontario

Indicator	# of CHCs Reporting on the Indicator[1]	Range of Performance Targets (%)[2]	% of CHCs			Performance Level (%)	
			Met Target	Did Not Meet Target	Excluded Due to Incomplete Information	Highest Performance Achieved	Lowest Performance Achieved
% patients who stated that when they see the doctor or nurse practitioner, that person or someone else in the office always/often spends enough time with them	73	70–100	45	45	10	100	76
% patients/clients who saw their primary-care provider within 7 days after discharge from hospital for selected conditions (based on CMGs[3]).	74	5–95	30	31	39	100	5
% respondents who responded positively to the question: "When you see your doctor or nurse practitioner, how often do they or someone else in the office give you an opportunity to ask questions about recommended treatment?"	74	70–100	42	50	8	100	62
% patients and clients able to see a doctor or nurse practitioner on the same day or next day, when needed	73	37–97	25	61	14	95	23

1. There are 75 CHCs in total.
2. Performance targets are set by either the CHCs themselves or their Local Health Integration Networks. They are stated as a percentage that differs ("range") according to the indicator and by individual CHC.
3. CMG: Case Mix Groups–acute-care in-patients with similar clinical and resource-utilization characteristics, including the following seven conditions: stroke, chronic obstructive pulmonary disease, pneumonia, congestive heart failure, diabetes, cardiac and gastro-intestinal disorders.

Figure 11: Results on 4 Outcome Indicators Reported by Selected Community Health Centres (CHCs) in Quality Improvement Plans, 2016/17

Source of data: Health Quality Ontario

Indicator	# of CHCs Reporting on the Indicator[1]	Range of Performance Targets (%)[2]	% of CHCs			Performance Level (%)	
			Met Target	Did Not Meet Target	Excluded Due to Incomplete Information	Highest Performance Achieved	Lowest Performance Achieved
% of patients/clients who visited the emergency department for conditions best managed elsewhere	41	0–55	32	44	24	3	55
% of acute hospital in-patients discharged with selected CMGs[3] that are readmitted to any acute in-patient hospital for non-elective patient care within 30 days	33	0–55	15	33	52	0	55
% of hospital in-patients discharged readmitted for non-elective care within 30 days	1	20[4]	100	0	0	3	3
% of clients with diabetes meeting LDL cholesterol target of <2.0, or 50% reduction from baseline	1	90[4]	0	100	0	43	43

1. There are 75 CHCs in total.
2. Performance targets are set by either the CHCs themselves or their Local Health Integration Networks. They are stated as a percentage that differs ("range") according to the indicator and by individual CHC.
3. CMG: Case Mix Groups–acute-care in-patients with similar clinical and resource-utilization characteristics, including the following seven conditions: stroke, chronic obstructive pulmonary disease, pneumonia, congestive heart failure, diabetes, cardiac and gastro-intestinal disorders.
4. Target is for the sole CHC that reported on this indicator.

hospital for selected conditions, one CHC set a target of 95% while another CHC set a target of 5%. Similarly, in the case of the indicator that measures the percentage of patients who visited the emergency department for conditions best managed elsewhere, one CHC set a high target of 0% while another CHC set a target of 55%.

RECOMMENDATION 7

To optimize the value of the quality improvement plans and to promote performance improvement in Community Health Centres (CHCs), we recommend that the Ministry of Health and Long-Term Care, in conjunction with Health Quality Ontario:

- identify systemic issues through a review of the submitted quality improvement plans and provide feedback to the CHCs;
- streamline the number of performance indicators that CHCs need to report in their quality improvement plans; and
- establish common performance targets across all CHCs.

MINISTRY RESPONSE

In partnership with Health Quality Ontario (HQO) and the LHINs, the Ministry introduced the requirement for team-based primary-care models, including CHCs, to submit an annual Quality Improvement Plan (QIP) to HQO as a means of embedding quality improvement into the culture of primary-care organizations. The QIP Program is managed by HQO, an agency with the statutory authority to advise the Ministry on health quality and to promote continuous quality improvement aimed at substantial and sustainable positive change in health care. The Ministry will work with HQO to improve feedback to inter-professional primary-care organizations, including CHCs, regarding systemic issues.

While the Ministry acknowledges that there are over 100 performance indicators that CHCs may choose to include in their QIP, three are priority indicators for CHCs. This approach aims to strike a balance between ensuring common quality improvement standards across all CHCs, while providing organizations the option to integrate custom or local indicators that fit the improvement priorities they want to communicate to the public. The Ministry will work with HQO and LHINs to determine if this approach requires further streamlining.

Recognizing that CHCs need to be responsive to the primary-health-care needs of their respective communities, the Ministry agrees that it is important to establish common performance targets across all CHCs. At present, CHCs are required to have panel size targets—meaning targets that identify the number of primary-care clients to be served—based on the risk profile of the population served and their complement of primary-care providers (that is, physicians and nurse practitioners). The Ministry will continue to work with LHINs and the sector to identify additional common performance targets across all CHCs as part of the regular cycle of renewing accountability agreements between the Ministry, LHINs and CHCs.

HEALTH QUALITY ONTARIO RESPONSE

Health Quality Ontario (HQO) provides information back to the CHCs through education, including through HQO's webinar series where analysis is shared from the Primary Care Sector Quality Improvement Plans (QIPs) from the last year as well as areas of focus for the following year's QIPs. HQO also has targeted webinars where issues, such as equity or patient relations, and content relevant to all sectors, including CHCs, are looked at. Lastly, the QIPs and content contained therein are publicly accessible and searchable such that anyone—a CHC, Ministry staff or member of the public—can search

for relevant information on quality in any given sector by organization, sector or LHIN.

As described in the QIP guidance documents, a QIP should reflect an organization's commitment to a balance of local and provincial priorities. While HQO recommends priority indicators, organizations are encouraged to select indicators based on their current performance, provincial priorities, regional initiatives, and the feedback of their patients and providers. Similarly, organizations are encouraged to set targets based on their current performance, giving consideration to whether current benchmarks are available and their capacity for improvement. HQO is committed to continuing to work with CHCs as part of our annual review of QIP indicators to identify opportunities to streamline and better align reporting requirements.

4.6 LHINs Do Not Adjust CHC Base Funding According to Number of Patients Served

The annual base funding that LHINs provide to CHCs is predominantly historical. Funding increases in the last few years have primarily been related to retention and recruitment of health professionals who work at CHCs. None of the LHINs we visited adjusted CHCs' funding levels when CHCs did not meet or exceeded the targeted panel size (the number of patients that the CHC is expected to serve, considering the number of physicians and nurse practitioners and the complexity of patients rostered at the CHC). As of March 31, 2017, about half of CHCs were at less than 80% of their targeted panel size, yet these CHCs still received the same level of base funding year after year. Similarly, the LHINs did not increase base funding to those CHCs that exceeded their targeted panel size.

The addition of newcomers to Ontario communities can increase CHCs' caseloads. A number of CHCs we visited indicated that they had seen an influx of newcomers, especially Syrian refugees, to their centres in recent years. Both the Ministry and the LHINs expect CHCs to provide primary-care and community services to these newcomers; however, the CHCs received no additional base funding to provide services.

One CHC we visited told us that it met the surge in demand by contracting a physician using surplus funds it had from not being able to hire a physician full-time, but could only accept Syrian refugees with complex issues as it was already providing care to patients close to its targeted capacity. Additionally, two other CHCs we visited informed us that they received one-time funding only from their respective LHIN, and that continued services to Syrian refugees are absorbed by their base funding. Two other CHCs received no additional funding for Syrian refugee clients and instead used existing funding to support these clients.

The accountability agreement between the LHIN and the CHC does not explicitly require each CHC to report the number of patients registered against the targeted panel size to its LHIN. As a result, three of the four LHINs we visited do not collect data from their CHCs on the actual number of patients served. The one LHIN that does collect this information did not adjust funding to the CHCs in the region if they did not meet their targeted panel size. Instead, it expects CHCs not achieving the target to improve in the following reporting period.

As also noted in **Section 4.4.3**, the LHINs do not track the number of clients who access community programs only, limiting the LHINs' ability to evaluate whether funding for these programs should be adjusted, if necessary.

RECOMMENDATION 8

To ensure that Community Health Centres (CHCs) can appropriately plan their operations and serve clients, we recommend that the Local Health Integration Networks review overall operating funding to CHCs to ensure each CHC's funding is commensurate with patient complexity, number of people served, geography and other relevant factors.

RESPONSE FROM LHINs

The LHINs will continue to monitor and assess funding to support CHCs to meet the needs of Ontarians. LHINs formally review CHC funding annually to assess the appropriateness of funding and service to patients. This process takes into account the unique characteristics of the patients within the CHC community and comparison to provincial benchmarks. Nevertheless, the LHINs will evaluate if other factors, such as the number of people served and geographic location, should be included in their assessment of funding.

4.7 Ministry's Role in Sharing Best Practices on CHC Operations Is Limited

Dissemination of best practices can help the sector innovate, reduce inefficiencies, and provide more effective and higher quality services. Consultants who conducted the Ministry-commissioned strategic review of the CHC program in 2001 recommended that the Ministry support the dissemination of best practices. The Ministry indicated that dissemination of information on best practices is mainly the responsibility of health-care providers' associations and Health Quality Ontario.

We looked at the Association of Ontario Health Centres, which represents 74 of the 75 CHCs, and we found that the Association has shared best practices among CHCs, particularly through its annual conference materials and sessions. We noted that conference topics in 2017 and 2015 covered areas such as supporting Syrian refugees, incorporating telemedicine in CHC practice, integrating a physiotherapist with clinical staff, and engaging and serving francophone populations.

With respect to Health Quality Ontario, the Ministry noted that the *Patients First Act, 2016* includes measures to provide statutory authority for Health Quality Ontario to recommend evidence-based quality standards for health-service providers (including CHCs) and the LHINs to appoint local clinical leads whose responsibilities include the promotion of clinical standards. At the time of our audit, not all LHINs had appointed clinical leads. Health Quality Ontario has recommended some quality standards that would be relevant to CHCs, which focus on patient conditions where there are large variations in how care is delivered.

We found, however, that given the Ministry has had direct oversight responsibilities for most of Ontario's inter-professional primary-care models for many years, it could do more to facilitate the sharing of best practices across primary-care models or within the CHC sector. Other inter-professional primary-care models (such as nurse practitioner–led clinics and family health teams) might also be using practices that could benefit the CHCs.

RECOMMENDATION 9

To facilitate dissemination of best practices to allow Community Health Centres (CHCs) to innovate, reduce inefficiencies, and provide more effective and higher quality services, we recommend that the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks:

- implement best practices promotion efforts under the *Patients First Act, 2016*; and
- develop and implement a mechanism to compile and share best practices from all inter-professional primary-care models, including CHCs.

MINISTRY RESPONSE

The Ministry acknowledges the importance of ensuring that primary-care best practices at a local level are disseminated across the province. The dissemination of best practices is not only an opportunity for CHCs, but for the health-care system as a whole.

Health Quality Ontario (HQO) has a mandate to support continuous quality improvement within Ontario's health system and to make

recommendations to health-care organizations and other entities on evidence-based clinical care standards. Under the *Patients First Act, 2016*, the role of Health Quality Ontario has been expanded to include making recommendations to the Minister concerning clinical care standards and performance measures. Through the recently established Quality Standards Council, experts from a variety of fields, including primary care, review best practices and associated evidence for the purpose of broad dissemination to primary care and other parts of the health-care system as a means of reducing variation and improving the overall quality of health services. The Ministry plans to continue supporting HQO in this endeavour and leveraging the benefits to the sector that will come with improved dissemination of best practices.

In addition to the clinical care standards currently in place, over the next year HQO plans to release additional standards for conditions such as opioid use disorder and chronic obstructive pulmonary disease.

The *Patients First Act, 2016* has significantly enhanced the role of the LHINs to be the single point of accountability for local and regional health-service planning, delivery and performance management. This will require engagement with the health system at all levels, including primary-care providers. A central component of the Patients First strategy was the establishment of an integrated clinical leadership structure for LHINs. The Ministry will work with the LHINs to establish processes and/or a platform to enable effective clinical engagement across the health-care system to improve the sharing of best practices and innovation.

To support these initiatives, the Ministry also funds the Health Links program to improve local connections and communication between primary health care and the rest of the health-care system to ensure more equitable access and a smoother patient experience. HQO is a key partner in ensuring the success of the Health Links program, including the delivery of the Best Practices Framework, deployment of quality improvement specialists across Ontario to help Health Links achieve its quality improvement goals, and capturing Health Link indicators on a quarterly basis.

RESPONSE FROM LHINs

The LHINs will continue to identify and share best practices from across the health system. For example, LHINs have partnered with Health Quality Ontario to facilitate the local implementation of Clinical Quality Standards. This is a key function of the clinical leads in each LHIN subregion, who work with all health-service providers, including CHCs, to ensure that patients have access to high-quality, patient-centred health care.

Appendix 1: Examples of Community Health Centre Client Experiences

Source of data: Selected Community Health Centres

Note: The names, locations and identifying details have been changed to protect privacy.

Kevin's Story

Kevin is a 70-year-old man who came to Canada, where his extended family was living, in 1989. He was without status in Ontario after his visitor's visa expired. In 2006, he began to experience medical symptoms that required clinical services, which he was unable to pay for. By 2007, he was introduced by his niece to a health promoter at a Community Health Centre (Centre) who worked with seniors. The health promoter introduced Kevin to the case co-ordinator for intake for primary care. By this time, Kevin's health, food security and finances had deteriorated. He was sent for tests and diagnosed with Parkinson's disease for which he would require lifelong medications. Case co-ordination continued to assist him with social, immigration, food security and financial support. He was able to access medications through a combination of samples and pharmaceutical company compassionate medication programs offered through the Centre. He was also able to access foot care through a referral to a chiropodist. Being without status for more than 20 years meant he was unable to access any government services. With the help of his case co-ordinator, he applied for status on humanitarian and compassionate grounds. In 2009, he was able to secure legal status and was referred to an immigration lawyer. Kevin could not have imagined success without his perseverance and that of the staff at the Centre. He described that he had never come across such an organization that worked so hard on behalf of its clients and really goes above and beyond the call of duty. Kevin felt that he is alive today because of his religious faith and the Centre's impact on his life medically, socially, mentally and emotionally.

Denise's Story

Denise has been affiliated with a Community Health Centre (Centre) for the last 15 years. She was introduced to the Centre by her mother and her two brothers. Denise's family had been volunteers for various programs offered at the Centre. In 2003, Denise went to her doctor at the Centre to get results of a biopsy and was diagnosed with breast cancer. The doctor arranged for her to see the surgeon. During the next year and a half, she was under constant care from both the doctors at the Centre as well as the nurse practitioners, who were always available when the doctors were busy with other patients. When Denise had a heart attack, she was referred to a dietitian and other interdisciplinary care at the Centre, such as a physiotherapist. She was referred to the Fitness for Health program by her doctor, a joint program run by the Centre and the YMCA, which allowed her to use YMCA facilities to exercise. Denise also joined the Centre's walking group for six weeks. She cannot express enough gratitude for what the Centre has done for her and for what it has done for the community. She exclaims that she is eager to experience all the other programs at the Centre. Denise feels that the Centre is doing its utmost to provide assistance wherever it can to people who need it.

Appendix 2: Key Events Relating to Ontario's Community Health Centres, 1970s–2017

Prepared by the Office of the Auditor General of Ontario based on information provided by the Ministry of Health and Long-Term Care

Year	Event
1970s	Ontario's CHC program had pilot status within the Ministry of Health and Long-Term Care (Ministry). At that time, Ontario had a total of 9 urban health centres in Ottawa and Toronto.
1984	The Ministry established the CHC program, recognizing CHCs as a part of Ontario's primary health-care system.
2000	The Office of the Auditor General of Ontario (formerly the Office of the Provincial Auditor of Ontario) conducted a value-for-money audit on the CHC program.
2001	The Ministry commissioned two external consultants to conduct a strategic review of the CHC program.
2004	The Ministry announced an expansion of CHCs by 10 satellite sites to extend the services of existing CHCs to areas where these services are needed.
2005	The Ministry announced an expansion of CHCs by 22 additional CHCs and 17 satellite sites.
2006	Ontario's 14 Local Health Integration Networks (LHINs) were established under the *Corporations Act* and continued under the *Local Health System Integration Act, 2006*.
2011	Accountability and base operating funding for CHCs were devolved from the Ministry to the LHINs.
2017	Current network of CHCs in Ontario includes 75 CHC corporations with a total of 145 locations.

Appendix 3: Comparison of Inter-Professional Primary Care Models in Ontario

Prepared by the Office of the Auditor General of Ontario

Model	Community Health Centres (CHCs)	Family Health Teams (FHTs)	Nurse Practitioner-Led Clinics (NPLCs)	Aboriginal Health Access Centres (AHACs)
Description	• Provide services in five key areas: primary care, illness prevention, health promotion, community capacity building and service integration. • The professional team of a CHC is composed of a physician, nurse practitioners and other health professionals, which may include a dietitian, social workers, nursing staff, physiotherapists, etc. • Designed to address social determinants of health and provide services to uninsured clients.	• Team of family physicians, nurse practitioners, registered nurses, social workers, dietitians and other professionals who work together to provide primary health care for their community. • Each FHT is set up to serve local health and community needs. For example, an FHT in Northern Ontario may provide primary care as well as other services catered to the needs of First Nations groups.	• Provide comprehensive primary-care services in underserved areas where it is difficult to employ or attract physicians. • Work to improve the quality of care through enhanced health promotion, disease prevention, mental health care and chronic disease management. • Nurse practitioners, along with collaborating physicians, are the lead primary-care providers. Other professionals may include registered nurses, dietitians, social workers, health promoters, mental health workers, physiotherapists and other health-care providers.	• Similar to CHCs but target Indigenous populations. • Offer a blend of traditional Indigenous approaches to health and wellness and contemporary primary health care in a culturally appropriate setting. • Teams are made up of physicians, nurse practitioners and traditional healers, and include other professional staff such as dietitians and social workers.
Governance model	Community-based board of directors	Three possible governance models: community-based, provider-based, or mixed (a combination of community- and provider-based governance)	Community-based board of directors	Community-based board of directors representing Indigenous communities
Year(s) established	1970s Expansion 2004 to 2013	Formally established in 2005. Original Family Health Networks (predecessor model) were created in the late 1990s and underwent changes over the years	2007	1995
Number as of March 2017	75	184	25	10

Model	Community Health Centres (CHCs)	Family Health Teams (FHTs)	Nurse Practitioner–Led Clinics (NPLCs)	Aboriginal Health Access Centres (AHACs)
Primary population/ demographics served	Priority populations include individuals who are: • homeless or low-income • new immigrants • uninsured • considered to have complex mental health issues • facing barriers to access primary care as a result of socio-demographics including age, race, sexual orientation, language, etc. Some CHCs have an Indigenous and/or francophone focus.	All population	All population	Indigenous population
# of clients as of March 2017	About 500,000	About 3.4 million	About 56,000	About 93,000
Accountable to	Local Health Integration Networks	Ministry of Health and Long-Term Care	Ministry of Health and Long-Term Care	Ministry of Health and Long-Term Care

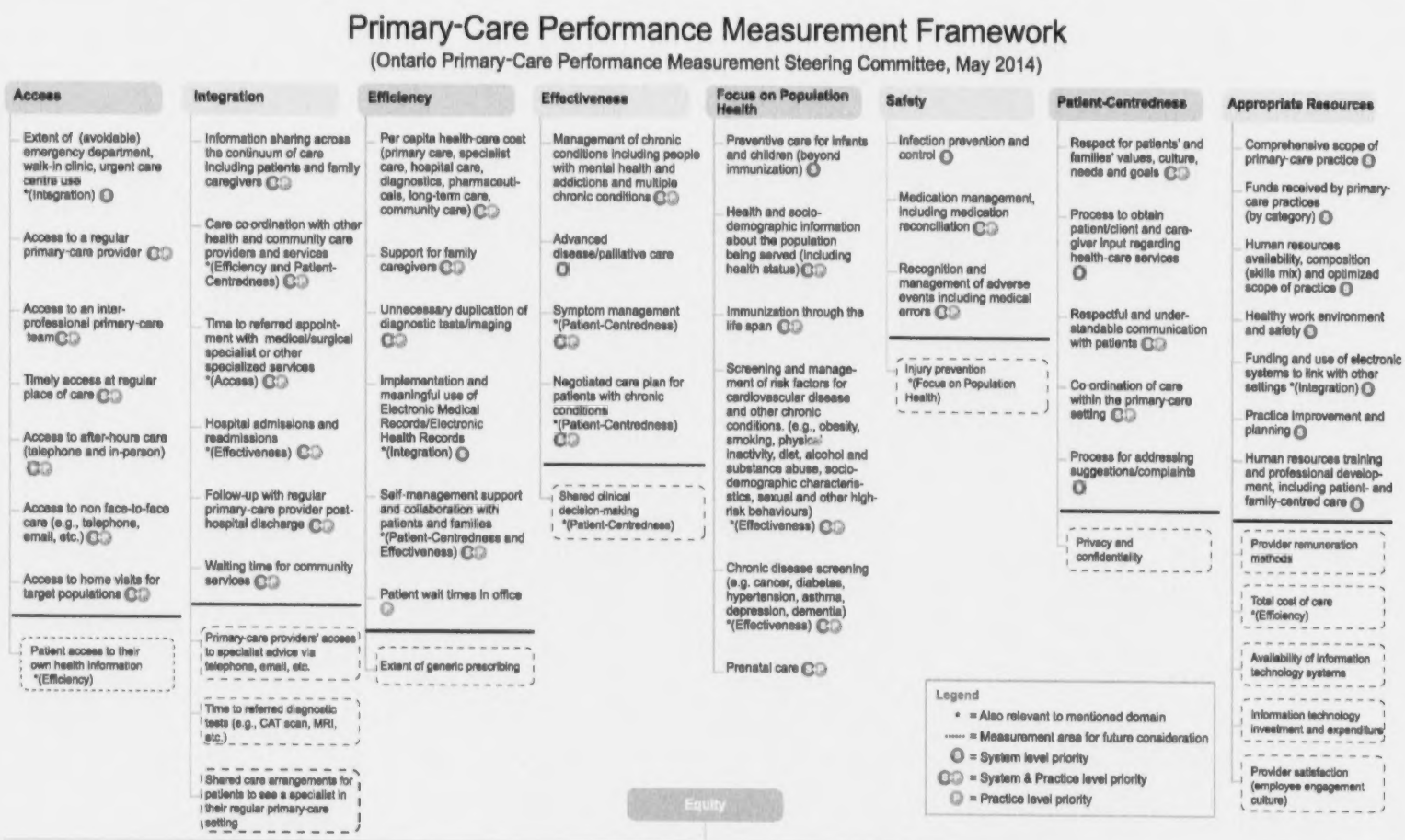
Appendix 4: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Roles and responsibilities are clearly defined and accountability requirements are established to facilitate the delivery of care and services to program users in a collaborative manner in accordance with legislative, contractual and program requirements.
2.	Programs and services are developed to meet client needs and are accessible. Unmet service needs are monitored and resources allocated or planned for accordingly.
3.	Funding allocations are applied to programs based on established needs, commensurate with the value of services to be provided, and evaluated on a timely basis.
4.	Performance measures and targets are established, monitored and compared against actual results to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.
5.	Accurate, timely and complete financial and operational information is regularly collected from the Community Health Centres to assess their performance, effectiveness and efficiency, and results are publicly reported.

Appendix 5: Primary-Care Performance Measurement Framework

Source of data: Health Quality Ontario


Primary-Care Performance Measurement Framework
(Ontario Primary-Care Performance Measurement Steering Committee, May 2014)
Access
Extent of (avoidable) emergency department, walk-in clinic, urgent care centre use *(Integration)
Access to a regular primary-care provider
Access to an inter-professional primary-care team
Timely access at regular place of care
Access to after-hours care (telephone and in-person)
Access to non face-to-face care (e.g., telephone, email, etc.)
Access to home visits for target populations
Patient access to their own health information *(Efficiency)
Integration
Information sharing across the continuum of care including patients and family caregivers
Care co-ordination with other health and community care providers and services *(Efficiency and Patient-Centredness)
Time to referred appointment with medical/surgical specialist or other specialized services *(Access)
Hospital admissions and readmissions *(Effectiveness)
Follow-up with regular primary-care provider post-hospital discharge
Waiting time for community services
Primary-care providers' access to specialist advice via telephone, email, etc.
Time to referred diagnostic tests (e.g., CAT scan, MRI, etc.)
Shared care arrangements for patients to see a specialist in their regular primary-care setting
Efficiency
Per capita health-care cost (primary care, specialist care, hospital care, diagnostics, pharmaceuticals, long-term care, community care)
Support for family caregivers
Unnecessary duplication of diagnostic tests/imaging
Implementation and meaningful use of Electronic Medical Records/Electronic Health Records *(Integration)
Self-management support and collaboration with patients and families *(Patient-Centredness and Effectiveness)
Patient wait times in office
Extent of generic prescribing
Effectiveness
Management of chronic conditions including people with mental health and addictions and multiple chronic conditions
Advanced disease/palliative care
Symptom management *(Patient-Centredness)
Negotiated care plan for patients with chronic conditions *(Patient-Centredness)
Shared clinical decision-making *(Patient-Centredness)
Focus on Population Health
Preventive care for infants and children (beyond immunization)
Health and socio-demographic information about the population being served (including health status)
Immunization through the life span
Screening and management of risk factors for cardiovascular disease and other chronic conditions. (e.g., obesity, smoking, physical inactivity, diet, alcohol and substance abuse, socio-demographic characteristics, sexual and other high-risk behaviours) *(Effectiveness)
Chronic disease screening (e.g. cancer, diabetes, hypertension, asthma, depression, dementia) *(Effectiveness)
Prenatal care
Safety
Infection prevention and control
Medication management, including medication reconciliation
Recognition and management of adverse events including medical errors
Injury prevention *(Focus on Population Health)
Patient-Centredness
Respect for patients' and families' values, culture, needs and goals
Process to obtain patient/client and care-giver input regarding health-care services
Respectful and understandable communication with patients
Co-ordination of care within the primary-care setting
Process for addressing suggestions/complaints
Privacy and confidentiality
Appropriate Resources
Comprehensive scope of primary-care practice
Funds received by primary-care practices (by category)
Human resources availability, composition (skills mix) and optimized scope of practice
Healthy work environment and safety
Funding and use of electronic systems to link with other settings *(Integration)
Practice improvement and planning
Human resources training and professional development, including patient- and family-centred care
Provider remuneration methods
Total cost of care *(Efficiency)
Availability of information technology systems
Information technology investment and expenditure
Provider satisfaction (employee engagement culture)
Legend
* = Also relevant to mentioned domain
..... = Measurement area for future consideration
= System level priority
= System & Practice level priority
= Practice level priority
Equity

Equity is a cross-cutting domain and will be assessed in relation to a variety of economic and social variables such as income, education, gender, disability, social support, mental health status, urban/rural location, age, sexual orientation/identity, language, immigration, ethno-cultural identity and Aboriginal status.

Chapter 3
Section
3.04

Emergency Management in Ontario

1.0 Summary

The focus of emergency management in Ontario is on protecting lives, infrastructure, property and the environment, and helping to ensure the continuity of government operations and critical assets. Having effective emergency management programs in place is important to ensure that the Province is ready to respond to an emergency in order to minimize the harm or damage that may result.

Because of its large and complex society and economy, Ontario faces the challenge of preparing for and responding to many different kinds of emergencies. Ontario has the largest and, in places, the most concentrated population in Canada, with approximately 14 million residents. In addition, it has the highest nuclear power generating capacity of any province or state in North America.

Emergency management in Ontario is based on five interdependent components: prevention, mitigation (risk and damage reduction), preparedness, response and recovery. To determine the priorities for emergency management and identify the activities to undertake within these five components, the following must first be identified: potential hazards, critical infrastructure and time-critical government services. The potential hazards facing Ontario include floods, forest fires, severe weather events, damage to the electrical grid, nuclear events, public health crises and others. Once hazards are identified, their risks to the province are assessed to determine their priority for attention. Critical infrastructure is infrastructure that needs to be protected and restored quickly in the event of an emergency, such as roads and telecommunications. Time-critical government services are those that need to remain operational during an emergency or be restored quickly afterwards.

For an emergency management program to be effective, the first step is to determine which hazards can be prevented, followed by which can be mitigated at a reasonable cost. The hazards that can neither be prevented nor mitigated inform what emergency management needs to prepare for and respond to in the event of an emergency. Recovery from damage incurred during an emergency may require financial assistance from the government.

The Provincial Emergency Management Office (EMO) is a branch within the Office of the Fire Marshal and Emergency Management division of the Ministry of Community Safety and Correctional Services. It is responsible for overseeing and coordinating the Province's emergency management program as well as overseeing the emergency management programs of the various ministries and municipalities in Ontario.

The *Emergency Management and Civil Protection Act* (Act) requires all ministries to have an emergency management program in place, including

an emergency response plan and a continuity of government operations plan. The Government of Ontario, through an Order in Council, has assigned 13 ministries and their ministers responsibility for preparing emergency management programs for specific types of emergencies and/or specific emergency services (functions), as shown in **Appendix 1** and **Appendix 2**.

In addition, each of the 444 municipalities in the province must have an emergency management program in place. Ontario generally uses a bottom-up approach to emergency response: municipalities manage and are mainly involved with local emergencies, but they can request resources from the provincial government when needed.

Although the Province has some measures in place to prepare for and respond to emergencies, there are weaknesses in the emergency management programs across the province and in EMO's oversight and co-ordination of emergency management programs, potentially making Ontario vulnerable if a large-scale emergency were to occur. For example, certain activities and tools that are needed to prepare ministries and municipalities for an emergency are not in place or are not being carried out effectively, such as updating risk assessments and emergency response plans, conducting practice tests of the emergency response plans, and making improvements to emergency management programs based on the results of past events and practice tests.

The following are some of our significant observations:

- **The current governance structure for emergency management in Ontario is not effective for overseeing a province-wide program.** Oversight of emergency management in Ontario is the responsibility of the Cabinet Committee on Emergency Management. However, this committee has not met for several years. Concerns about the overall oversight of emergency management in the province were brought to the government's attention as far back as 2005 in an internal review report, *Emergency Management Processes in the Ontario Public Service*. The report concluded: "At the enterprise level, processes are not currently sufficient to ensure that Ontarians and the resources of the Province are adequately protected against emergencies and disasters." It suggested that emergency management be regularly discussed at the executive level, by being included as a standing agenda item at meetings of the Deputy Ministers' Council. However, this has not been done.
- **Lower than expected priority given to emergency management.** EMO is located within the Ministry of Community Safety and Correctional Services. As a result, EMO competes with other Ministry priorities, such as those pertaining to policing, fire and correctional facilities. Over the past years, it has not fared well in this environment and has experienced significant staffing, budget and program cuts. We also noted that EMO's top two leadership positions, the Commissioner and the Chief, have experienced frequent turnover and vacancies at times over the past five years. The lack of continuity in leadership has resulted in a lower priority and importance given to the provincial emergency management program and has affected the level of services EMO provides, including its ability to co-ordinate with ministries and municipalities.
- **Risk identification and assessment processes are not sufficient to ensure that the provincial emergency management program includes all areas of concern.** The latest overall provincial risk assessment was done in 2012 based on emergencies experienced in Ontario up to 2009. Therefore, the current provincial emergency management program has not considered emergencies that have occurred over the past eight years, or the latest information on the effects of climate change and other developing risks such as cyberattacks and terrorism. Also, the current approach is that EMO, ministries and

municipalities all undertake risk assessment independently of each other. The best practices identified by our expert on emergency management programs suggest that risk assessments should be done collaboratively to fully understand risks at both the local and provincial levels.

- **The Province does not have a co-ordinated information technology (IT) system in place for emergency management.** In 2009, EMO attempted to develop and implement a province-wide IT system for emergency management. After extensive delays and user dissatisfaction, it discontinued the project in 2015, having spent about $7.5 million without it ever going live. A province-wide system can let ministries and municipalities co-ordinate and share information both during emergencies and on an ongoing basis, and can store information that may be needed during an emergency such as the latest emergency response plans and the location of critical infrastructure such as hospitals. With no province-wide co-ordinated IT system, the ministries we visited had to find solutions to address their own needs; thus, one of the ministries visited has supported the procurement of an IT system to be used by the ministry and its stakeholders to assist with information sharing and to store documentation relating to emergencies, while others use a simple database or do not currently have an IT system for emergency management.
- **The provincial emergency management program does not focus on all five components of emergency management: prevention, mitigation, preparedness, response and recovery.** Currently, the focus of the emergency management program in Ontario is mainly on only two of the five components—preparedness and response—with the Ministry of Municipal Affairs also undertaking activities related to recovery through the disaster financial assistance programs. When the emergency management program began in 2003, it started at the first level, the essential level, of a three-level program, with a plan to progress to the third level, the comprehensive level, by 2006. The first level includes only the preparedness and response components, while the comprehensive level includes all five components. Fourteen years later, the Province's emergency management program remains at the first level.
- **Emergency response plans have not been updated to reflect current events or operations.** The two provincial emergency response plans that are prepared by EMO—the Provincial Emergency Response Plan and the Provincial Nuclear Response Plan—have not been updated since 2008 and 2009. We noted that many of the response plans at the ministries we visited had not been updated for several years. Plans need to be regularly updated with current information and to reflect the best approach to respond to emergencies so they can be used as a step-by-step guide during a response. Since many of the emergency response plans we reviewed had not been recently updated, these plans may not reflect current operations or incorporate program changes. They also may not include current information on best practices and lessons learned from past emergencies, practice tests of the response plans and recent worldwide events. This could result in confusion or delays during the response to an emergency.
- **The approach to practising for emergencies does not ensure that the Province is prepared to respond to emergencies.** An important aspect of preparing for emergencies is to perform practice tests for a simulated emergency with all relevant parties. None of the ministries we visited had a multi-year strategy for practice tests to ensure that a variety of different hazards are tested over time. Further, approximately 80% of the practice tests undertaken over the past five years were

basic tests—discussions, seminars, workshops to familiarize participants with current plans, agreements and procedures—and generally did not include a simulation of an actual emergency requiring the movement of personnel and equipment. While we recognize that a comprehensive simulation exercise would require significant resources, it should be included in a multi-year strategy to highlight areas requiring further development or improvement and determine whether specific goals of the plan have been met.

- **The Province's overall state of readiness to respond to emergencies needs significant improvement.** An effective and efficient response to an emergency includes timely and accurate communication, understanding of roles and responsibilities, awareness of the situation as it develops, information sharing and identification of the needed resources. We have noted the following concerns with regard to Ontario's state of readiness to respond to potential emergencies:
  - **Numbers of trained staff are not sufficient for a lengthy emergency.** EMO has not identified enough trained staff to maintain the Provincial Emergency Operations Centre around the clock during a lengthy large-scale emergency (longer than two weeks) or multiple simultaneous emergencies. This shortage of staffing resources was noted as a concern during the 2017 floods in Ontario.
  - **A standardized approach for emergency response has not been mandated after eight years in development.** The use of a standardized approach to respond to emergencies can help avoid problems and confusion that can occur when multiple organizations are working together, which can delay response efforts. Such an approach helps provide a common understanding of the situation being responded to, such as who is in control and who the decision-makers are. However, Ontario has not mandated such an approach. The need to mandate a standardized approach was noted during a public inquiry into the 2011 mall collapse in Elliot Lake.
  - **Agreements are not in place for resources that may be needed in an emergency response.** The efficiency of the response to emergencies can be greatly enhanced and expenses reduced if agreements are in place at pre-established rates for the resources anticipated to be required, along with mutual aid agreements with different parties expected to work together and arrangements for having specialized teams available to assist. However, we found that EMO and the ministries we visited have few such agreements and arrangements in place. This was noted during the 2013 southern Ontario ice storm when municipalities required debris removal and requested assistance from EMO, but contracts were not in place. As a result, wide variations were noted in the rates paid by municipalities for these services.

Overall Conclusion

The Provincial Emergency Management Office (EMO) and the selected ministries need to improve their policies and procedures to ensure that fully effective emergency management programs would be able to respond quickly if needed to protect the public and sustain provincial and municipal operations. We noted that emergency management in Ontario has been negatively impacted by the placement of EMO within a ministry with its own priorities, and by high turnover in leadership positions. We also noted that there has been a lack of province-wide oversight by the Cabinet Committee on Emergency Management.

EMO needs to better co-ordinate the provincial emergency management program by providing tools and resources to ministries and municipalities. EMO

and the ministries also did not have effective processes to measure, evaluate and publicly report on the emergency management program's objectives.

In addition, we found that emergency management operations at EMO and the ministries, including the disaster financial assistance programs, are not always carried out with due regard for economy and efficiency.

This report contains 14 recommendations with 39 action items.

OVERALL MINISTRY RESPONSE

The Ministry of Community Safety and Correctional Services (Ministry), along with partner ministries (Ministry of Health and Long-Term Care, Ministry of Transportation, Ministry of Municipal Affairs, and Ministry of Natural Resources and Forestry), appreciates the Auditor General's findings.

Ontario's emergency management system helps keep Ontarians safe and lessens the impact of disasters. Dedicated emergency management professionals across the province play a key role in protecting Ontarians from harm and helping our communities in times of crisis.

Ensuring Ontario is better prepared and able to respond to any emergency is a priority for the government. In the 2014 Mandate Letter from the Premier, the Ministry was asked to conduct a review of Ontario's emergency management system. The external review is now complete and a final report has been presented to the Ministry.

We know there are opportunities to improve and we are committed to building a system that is collaborative, proactive, based on national and international best practices, and able to adapt to the unique circumstances of communities across the province.

We are pleased to see that the findings from the Auditor General's report are consistent with those of the review. We have already begun to address issues by:

- reviewing best practices from other jurisdictions and consulting with stakeholders on how to transform emergency management governance;
- developing an enhanced framework of requirements in order to establish clear expectations of all emergency management programs in Ontario; and
- working to enhance the existing compliance process to ensure that ministries and municipalities meet their requirements under the *Emergency Management and Civil Protection Act*.

The Auditor General's recommendations, along with those in the review, will help guide the changes under way to improve Ontario's ability to respond to existing and evolving risks. We will continue to work with our stakeholders to build a better emergency management system for Ontarians.

2.0 Background

2.1 What Is an Emergency?

According to the *Emergency Management and Civil Protection Act* (Act), an emergency is a situation or an impending situation that constitutes a danger of major proportions and could result in serious harm to persons or substantial damage to property. An emergency may be caused by hazards such as forces of nature, diseases or other health risks, an accident, or an act, whether intentional or otherwise.

A formal declaration of an emergency may be made if conditions in a municipality or in the province meet certain criteria, such as when a ministry's existing resources are not sufficient to address the emergency or they cannot be relied upon without the risk of serious delay. At the municipal level, the head of council (typically, the mayor) declares an emergency and must notify the Province. At the provincial level, the Premier of Ontario and

Lieutenant Governor in Council have the power to declare a provincial emergency. Even without a declaration, however, one level of government can request assistance from the next higher level.

2.2 Importance of Emergency Management

The focus of emergency management is on protecting lives, infrastructure, property and the environment, helping to ensure the continuity of government operations and critical assets, and recovery (assisting individuals, businesses and communities to return to a state of normalcy).

As a large and complex society and economy, Ontario faces the challenge of preparing for and responding to many different kinds of emergencies. Ontario has the largest and, in places, the most concentrated population in Canada, with approximately 14 million residents. In addition, it has the highest nuclear power generating capacity of any province or state in North America.

Growing research about the impact of climate change has focused attention on the increasing likelihood of more frequent and extreme natural hazards. In addition, there are growing threats from terrorism and an increased dependency on technology, which is vulnerable to cyberattacks.

2.3 Emergency Management in Ontario

Ontario's current emergency management program dates back to 2003. Its formation was prompted in part by events such as the 1998 eastern Ontario ice storm, preparations for the possible disruption of electronic communications in the year 2000 (Y2K), and the 9/11 attacks. **Appendix 3** shows the history of emergency management in Ontario and significant events that have influenced the program and its delivery, beginning in the 1950s. The last two declared provincial emergencies were the severe acute respiratory syndrome (SARS) outbreak of March to July 2003 and the electrical blackout of August 2003. SARS caused a total of 44 deaths in Ontario and left 375 others with serious lung disease. The blackout in 2003 left approximately 10 million Ontarians without power for periods ranging from a few hours to several days.

2.4 Ontario's Emergency Management Program

Ontario's emergency management program is composed of five interdependent components. These are prevention, mitigation, preparedness, response and recovery. The Provincial Emergency Management Office (which we will abbreviate as EMO, which is the same acronym that was used when the office went by the name "Emergency Management Ontario") is the provincial co-ordinating office for emergency management. Its Emergency Management Doctrine for Ontario, which describes the concepts and key principles of emergency management, outlines how these five components interact and what each represents (**Figure 1**).

The first step in building an effective emergency management program is to identify hazards that have occurred or have the potential to occur, and assess their risks. After that is done, the results provide the basis for the development of the emergency management program. Ontario has identified 39 types of hazards and has assigned each hazard a level of risk and a ministry responsible for that hazard (see **Appendix 1**). **Appendix 2** shows other types of emergencies that do not relate to a specific hazard; each has been assigned to the ministry whose responsibilities most closely relate to it (for example, the Ministry of Labour has been assigned responsibility for any emergency that affects worker health and safety).

Other important elements of emergency management in Ontario include:

- continuity of government operations plans—to help ensure that the government will be able to provide time-critical functions and services during an emergency and to identify which ones need to be recovered quickly afterwards;

Figure 1: The Five Components of Emergency Management in Ontario

Prepared by the Office of the Auditor General of Ontario using data from the Ministry of Community Safety and Correctional Services

1. Prevention: Actions taken to prevent an emergency or disaster.
2. Mitigation: Actions taken to reduce the effects of an emergency or disaster. This may include structural or non-structural improvements to buildings and infrastructure.
3. Preparedness: Actions taken prior to an emergency or disaster to ensure an effective response. This may include implementing standards and plans, practice tests, public education and public alerts.
4. Response: Actions taken to respond to an emergency or disaster. This includes ensuring that a controlled, co-ordinated, effective and rapid response is undertaken.
5. Recovery: Actions taken to recover from an emergency or disaster and to assist individuals, businesses and communities to return to a state of normalcy. This may include environmental clean-up, return of evacuees, or financial assistance.

- a critical infrastructure program—to identify and protect assets (processes, systems, facilities, technologies, networks and services) that are essential to the health, safety, security and economic well-being of people and the effective functioning of government; and
- partnerships—establishing relationships between major stakeholders such as municipalities, ministries and key individuals.

2.4.1 Roles and Responsibilities

Ontario uses a bottom-up approach to emergency response, as outlined in the Emergency Management Doctrine for Ontario, which is consistent with the approach used by Canada's federal government and other provinces. Municipalities are responsible for managing most emergencies, although they can request resources and assistance from the provincial government when needed; some exceptions to this approach are noted below. (Refer to **Figure 2** and **Appendix 4** for a summary of the roles and responsibilities of the parties involved in emergency management in Ontario.)

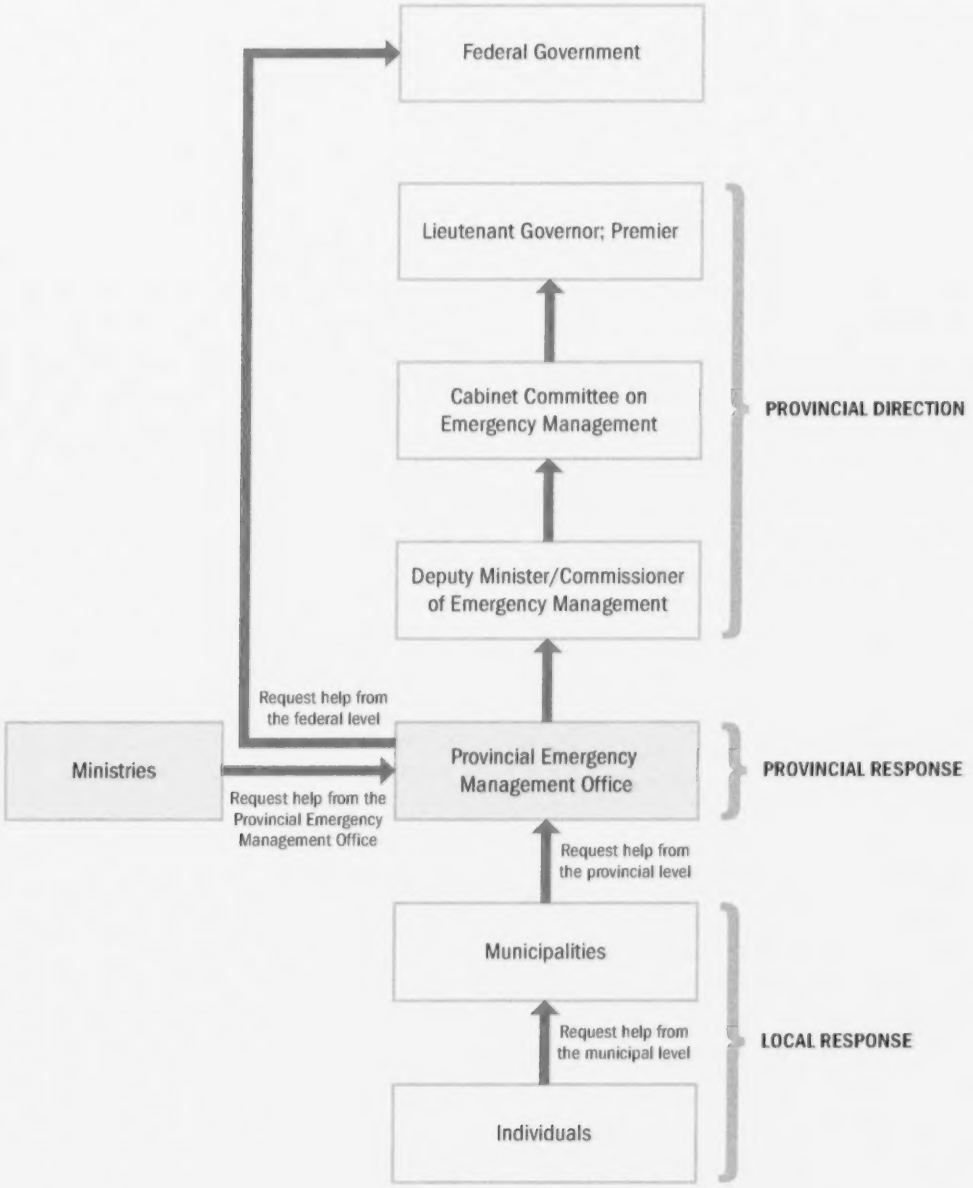
The responses to the floods in southern and eastern parts of the province in 2017 and to the ice storm in 2013 are examples of the bottom-up approach. These emergencies were handled at the municipal level for the majority of the communities affected. The Province provided assistance as requested by the municipalities.

Municipalities are subject to a series of provincially legislated responsibilities. Some of these are creating community emergency management programs and plans, having a community emergency management co-ordinator, and establishing emergency operations centres.

At the provincial level, the lead ministry for emergency management is the Ministry of Community Safety and Correctional Services, which is

Figure 2: Roles and Responsibilities in Emergency Management for Ontario

Prepared by the Office of the Auditor General of Ontario



Notes:

- See **Appendix 4** for descriptions of the roles and responsibilities of the parties in this figure.
- Provincial response structure is different for nuclear and radiological emergencies and response to First Nations events. The federal government has a fiduciary responsibility for First Nations events and the Provincial Emergency Management Office is responsible for the overall provincial off-site response to nuclear emergencies.

where EMO resides. The Province has created two emergency response plans—the Provincial Emergency Response Plan and the Provincial Nuclear Emergency Response Plan—which are used to co-ordinate the overall provincial emergency response. The Province is responsible for the response to a nuclear emergency affecting the area outside of the nuclear power facility. Under a cost recovery agreement with the federal government, the Province co-ordinates the response for First Nations communities experiencing emergencies on behalf of the federal government. Emergencies arising from these two areas for which Province has the overall responsibility to respond are exceptions to the bottom-up approach to emergency management.

The federal government can provide assistance to the Province if an emergency requires a level of support or resources that go beyond what these levels of government are capable of providing. The federal government is responsible for emergencies such as war, international situations and emergencies in international waters, and has specific responsibilities in nuclear emergencies.

2.4.2 The Provincial Emergency Operations Centre

The new Provincial Emergency Operations Centre, a large, state-of-the-art facility that opened in 2015, is located in Toronto. The facility includes an 82-seat operations room with a 21-metre-wide wall display—the largest in Canada when it opened—that can provide a real-time view of developing emergencies. The operations centre's purpose is to centrally co-ordinate the provincial response to emergencies and work with its partners: ministries, municipalities and the federal government, jurisdictions outside of Ontario, and others.

A duty officer staffs the operations centre around the clock and monitors situations around the province and in neighbouring areas that may have an impact on the province. If a situation warrants, the level of monitoring escalates to enhanced monitoring and then to activation if the situation continues to escalate. The duty officer is the main provincial contact for municipalities and others, including First Nations, needing assistance from the Province during an emergency.

Since it opened, the Provincial Emergency Operations Centre has mainly been used to respond to First Nations emergencies such as flooding, to provide assistance to municipalities during emergencies, and to host meetings.

2.4.3 Provincial Disaster Financial Assistance Programs

The Ministry of Municipal Affairs is responsible for Ontario's disaster financial assistance programs, which are intended for homeowners, tenants, small businesses, farms, not-for-profit organizations and municipalities. These programs are claims-based and are meant to assist with a sudden and unexpected natural event with costly and widespread impacts. They apply to essential expenses (for necessary furnishings and appliances) and the repairs needed to return infrastructure to pre-disaster conditions. They are not intended as a replacement for private insurance claims or coverage, although individuals with no coverage or without full coverage may be eligible for assistance.

The Province pays the claims for disaster financial assistance out of its contingency fund. In some circumstances, such as when costs exceed a certain amount (based on a dollar amount times the population), Ontario may be eligible for the federal government's disaster financial assistance. With its large population, however, it is very unusual for Ontario's costs to exceed this amount.

2.4.4 Governing Legislation and Standards

The *Emergency Management and Civil Protection Act* (Act) and its regulation establish the legal basis and framework for managing emergencies that fall within the responsibility of the Ontario Government and the municipalities. For this purpose it defines the Province's authority and responsibility

over ministries and municipalities. Specific provisions in the Act establish criteria for declaring a provincial or municipal emergency and developing and implementing a municipal or ministry emergency management program, including the requirement to identify hazards and assess risks, and to identify elements of critical infrastructure. Some ministries have additional legislated requirements that they are expected to comply with. For example, the *Forest Fires Prevention Act* mandates the Minister of Natural Resources and Forestry to declare a "forest fire emergency area" if necessary, and the *Health Protection and Promotion Act* gives the Chief Medical Officer of Health broad powers to investigate and respond to medical risks.

An Order in Council from 2009 assigns responsibilities to 13 ministries based on specific types of emergencies and/or emergency services (functions). Their ministers are responsible for the preparation of the appropriate emergency programs and response plans for these emergencies (see **Appendix 1** and **Appendix 2**).

2.5 Ongoing Initiatives Affecting Emergency Management

In 2014, the Premier sent mandate letters requesting that EMO and the Ministry of Municipal Affairs undertake a review of their programs. At the time of our audit, several initiatives had been undertaken with the goal of transforming emergency management in Ontario, including the following:

- EMO recently engaged in a Provincial Emergency Management Review undertaken by a consultant. The scope of the review included a comprehensive program evaluation and identification of opportunities to improve emergency management, a review of legislation and policy, and a jurisdictional/environmental scan. The review began in November 2016, and a final report with recommendations was issued to the Ministry in August 2017. We reviewed the findings and noted that many of the issues identified were similar to those we identified during our audit, such as the need for a better governance structure to promote effective oversight, the lack of support available from EMO for ministries and municipalities, and the need for a standardized approach for emergency response.
- In 2015, the Ministry of Municipal Affairs engaged a consultant in a review of the Ontario Disaster Relief Assistance Program to determine if it was addressing current needs and to build upon lessons learned from recent events, including the 2013 ice storm. The report for the review was finalized in February 2015. As a result of the review, in March 2016, the Ministry of Municipal Affairs announced two new disaster financial assistance programs to replace the Ontario Disaster Relief Assistance Program:
  - Disaster Recovery Assistance for Ontarians helps affected residents repair or replace essential property and cover eligible emergency costs.
  - Municipal Disaster Recovery Assistance reimburses municipalities for eligible extraordinary emergency response and repair costs.

3.0 Audit Objective and Scope

Our audit objective was to assess whether selected ministries have policies and procedures to ensure that:

- effective provincial emergency management programs are in place, including the co-ordination and oversight of ministries and municipalities, in order to protect the public and sustain provincial and municipal operations;
- emergency management operations are carried out with due regard for economy and efficiency; and

- emergency management program objectives are appropriately measured, evaluated for effectiveness and publicly reported.

Before starting our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 5**). These criteria were established based on a review of applicable legislation, directives, policies and procedures, internal and external studies, and best practices. Senior management at each ministry we visited reviewed and agreed with the suitability of our objective and related criteria.

We conducted the audit between December 8, 2016, and August 31, 2017, and obtained written representation from each ministry's management that, effective November 17, 2017, it has provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

We conducted our work primarily at the Provincial Emergency Management Office (EMO) of the Office of the Fire Marshal and Emergency Management division, within the Ministry of Community Safety and Correctional Services. We also conducted work at the emergency management branches at the following ministries (ministries that had been assigned specific hazards): the Ministry of Community Safety and Correctional Services, the Ministry of Health and Long-Term Care, the Ministry of Transportation, and the Ministry of Natural Resources and Forestry. In addition, we reviewed the disaster financial assistance programs at the Ministry of Municipal Affairs. We selected these ministries based on the risk the hazards assigned to them pose to Ontarians, the frequency of occurrence of these hazards, and the components of emergency management that the ministries are involved with.

In conducting our audit work, we reviewed applicable legislation, regulations, ministry policies and relevant files, and interviewed ministry staff at the various locations visited. At the ministries whose emergency management branches we audited, we focused on the risk assessment process; continuity of government operations plan; emergency response plans; practice testing; public education; response capabilities, including the emergency operations centre and use of information technology; lessons learned; and performance measures. In addition to these, at EMO we focused on the role of provincial co-ordination and oversight of emergency management for the Province. At the Ministry of Municipal Affairs, we focused on the provincial disaster financial assistance programs and financial assistance provided during the most recent special assistance program for the 2013 southern Ontario ice storm. Most of our work focused on the five-year period ending March 31, 2017.

In addition, we held meetings and interviews with numerous stakeholders to gain an understanding of their perspectives on emergency management in Ontario, and to identify areas of improvement and best practices. The stakeholders were as follows:

- Public Safety Canada;
- Indigenous and Northern Affairs Canada;
- Public Health Ontario;
- the Ontario Association of Emergency Managers;
- the Association of Municipalities of Ontario;
- Ontario Power Generation;
- Bruce Power;
- the Canadian Red Cross;
- the Insurance Bureau of Canada;
- Greenpeace;
- the Canadian Environmental Law Association; and
- nine municipalities, based on size, risk of hazards within these municipalities, and events that have occurred there: Ottawa, Toronto, Brampton, Durham, Sault Ste. Marie, Belleville, Kenora, Burlington and Amherstburg.

We also reviewed reports on audits completed by the Ontario Internal Audit Division and legislative audit offices in other provinces, at the federal level and in other countries, along with reports on best practices.

We engaged an independent consultant with expertise in the field of emergency management to assist us on this audit.

4.0 Detailed Audit Observations

4.1 Governance and Organization Structure Not Conducive to Effective Emergency Management

4.1.1 Governance of Emergency Management Is Not Effective for a Province-Wide Program

Overall strategic direction for the Province's emergency preparedness is the responsibility of the Cabinet Committee on Emergency Management (Committee), which consists of eight members of the Provincial Parliament and the Premier. The Committee has the significant mandate to provide strategic direction and ensure that the Province is prepared to address emergency situations. However, the Committee does not hold regular meetings and has not delegated responsibility to anyone else. We could find no evidence of its having held a formal meeting in the past five years. Without meeting regularly, the Committee cannot provide proper oversight and strategic direction for the Province or a government-wide focus for emergency management, and cannot demonstrate that the Province is prepared to address an emergency situation.

Members of the Committee did, however, receive updates on recent emergencies, such as the December 2013 southern Ontario ice storm, and were prepared in the event that the Committee needed to respond.

Concerns about the overall oversight of emergency management were brought to the government's attention as far back as 2005 in an internal review report, *Emergency Management Processes in the Ontario Public Service*. The report concluded: "At the enterprise level, processes are not currently sufficient to ensure that Ontarians and the resources of the Province are adequately protected against emergencies and disasters." It suggested that emergency management be regularly discussed at the executive level, by being included as a standing agenda item at meetings of the Deputy Ministers' Council, which has not been done.

In looking for best practices, we found that Alberta and British Columbia both have active high-level government-wide committees overseeing emergency management in the province, as noted in **Figure 3**.

4.1.2 Province No Longer Has a Dedicated Office for Emergency Management

Concerns over Competing Priorities

The Provincial Emergency Management Office (EMO) is responsible for Ontario's provincial emergency management program. In addition, the *Emergency Management and Civil Protection Act* (Act) requires EMO's Chief of Emergency Management to co-ordinate, monitor and assist with the development and implementation of emergency

Figure 3: Comparison of Governance Structures for Emergency Management across Jurisdictions
Prepared by the Office of the Auditor General of Ontario

	Ontario	Alberta	British Columbia
Responsibility for overall governance of emergency management	• Cabinet Committee (Ministers and the Premier)	• Deputy Minister Committee • Assistant Deputy Minister Committee	• Deputy Minister Committee* • Assistant Deputy Minister Committee* • Executive Director Committee** (chaired by the minister overseeing emergency management)
Frequency of meetings	During emergencies	Every two months	* Monthly ** Quarterly

management programs for other ministries and municipalities. EMO's Chief reports to the Commissioner of Emergency Management, who is appointed by the Lieutenant Governor.

EMO is positioned within the Ministry of Community Safety and Correctional Services (Ministry). This results in EMO competing with other priorities of the Ministry, including urgent priorities pertaining to policing, fire and correctional facilities.

We noted that over the past several years, emergency management has not fared well in the Ministry and has not been given the priority needed to be an effective program for the Province.

Specifically, two divisions within the Ministry—Emergency Management Ontario (as EMO was known at the time) and the Office of the Fire Marshal—amalgamated in 2013. This resulted in a merger in leadership, moving from one chief for each office (an assistant deputy minister–level position) to one chief overall. The leadership of the Office of the Fire Marshal was retained, and priority has been given to this area of the new organization and not to emergency management.

Emergency management experienced the reductions in staffing and budgets after the amalgamation shown in **Figure 4**.

In addition, programs and activities were suspended or reduced:

- Key programs that were put on hold included the Ontario Critical Infrastructure Assurance Program (used to identify key infrastructure and identify ways to mitigate its vulnerabilities; see **Section 4.2.2**), the Surge Capacity Program (used to assist with resource needs during an emergency by bringing in increased staff; see **Section 4.5.1**) and the Incident Management System (a standardized approach structure used by all levels involved in a response; see **Section 4.5.2**).
- Several emergency management working groups such as a group working on the Incident Management System and annual conferences of stakeholders used to network and discuss emerging events to build comprehensive emergency management programs for the Province were put on hold.

The Province has not shown a commitment to emergency management, but instead has allowed programming to decrease. This came to light in a follow-up report conducted by the Ontario Internal Audit Division of the government on the collapse of the roof of a large commercial mall in Elliot Lake in 2012. EMO stated that it was unable to implement many important recommendations from the 2014 public inquiry into the collapse in part because of resource issues.

The report directed 16 of its 38 recommendations on emergency response to EMO. As of December 2015, when they were last followed up on, only two had been implemented. Among the actions that EMO stated it cannot implement because of its current resources are the following:

- Timely debriefings and lessons-learned reports should be mandatory for all agencies and organizations involved in rescue and recovery operations.

Figure 4: Operating Expenses and Staffing Resources in the Provincial Emergency Management Office, Selected Years

Source of data: Ministry of Community Safety and Correctional Services

	2009/10	2012/13	2016/17
Operating expenses–actual ($ million)	10.1	9.2	6.4
Staffing resources (full-time employees)	Total positions: 84 Filled positions: 69 Vacancies: 15	Total positions: 63 Filled positions: 57 Vacancies: 6	Total positions: 58 Filled positions: 46 Vacancies: 12

Note: The 2009/10 fiscal year represents the peak funding and staffing at the Provincial Emergency Management Office before amalgamation in 2013.

- On request, the Province should make incident support teams available to incident commanders.

Frequent Turnover and Vacancies in the Leadership of Provincial Emergency Management

Since the 2013 amalgamation of EMO and the Office of the Fire Marshal within the Ministry of Community Safety and Correctional Services, leadership at EMO has experienced frequent turnover. Four different people have acted as Chief of Emergency Management, and at the time of our audit, the current Chief was in an interim position.

The Commissioner of Emergency Management, to whom the Chief reports, has the overall responsibility for providing leadership to the government's emergency management program and advises the Premier and the government on policy, procedures and legislation related to emergency management. Yet the position of commissioner has also experienced instability over the past five years.

The Commissioner used to have a single focus on only emergency management, but that changed in 2012 when responsibility for overall public safety in the province was added to the Commissioner's emergency management responsibilities. In fact, the current Commissioner, who was appointed in August 2016, is also the Deputy Minister of Community Safety and Correctional Services and therefore shares his time between emergency management and the many other responsibilities of the Ministry. Before the Deputy Minister's appointment, the Commissioner's position was vacant for almost two years. As a comparison, British Columbia has a dedicated Deputy Minister for emergency management and a dedicated Parliamentary Secretary to whom this person reports. (A Parliamentary Secretary is a member of the legislature who has been assigned by the Premier to assist a minister in a specific area.)

The frequent changes in leadership at EMO, along with not having a dedicated Commissioner in place for the past five years, have impacted the program and demonstrate that the program has been given lower priority than expected in the province. This limits EMO's influence and its ability to co-ordinate and oversee the emergency management activities of ministries and municipalities. We discuss this further in **Sections 4.1.3** and **4.1.4**.

RECOMMENDATION 1

We recommend that the Ministry of Community Safety and Correctional Services (Ministry) through the Provincial Emergency Management Office review best practices in other jurisdictions and recommend to the Cabinet Committee on Emergency Management a governance structure that promotes and supports effective oversight of emergency management in the province and increases emergency preparedness, and that the Ministry implement this structure with the approval of the Cabinet Committee.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and recognizes the importance of clarifying the provincial emergency management governance structure.

The Ministry has already begun work to address this issue, as this was also identified in the recent provincial emergency management review. More specifically, the Ministry is reviewing best practices from other jurisdictions and consulting with stakeholders on how to transform emergency management governance to ensure it can effectively guide the development and implementation of best practice emergency management programs in Ontario.

A proposal for this transformation will be developed.

4.1.3 Oversight Process for Ministries and Municipalities Does Not Ensure They Are Prepared to Respond to an Emergency

Currently, the Act assigns the day-to-day responsibility for emergency management to the Chief of Emergency Management (an Assistant Deputy Minister). The Chief's responsibilities include monitoring, co-ordinating and assisting in the development and implementation of emergency management programs in the province for ministries and municipalities. However, the legislation does not give the Chief the authority to enforce the legal requirements of ministries and municipalities. Instead, the Chief can only encourage and request their co-operation, and therefore cannot ensure they are adequately prepared to respond to an emergency.

Requirements in the Act and Regulation

The Act and its regulation include many requirements for ministries and municipalities relating to emergency management. These include:

- developing and implementing an emergency management program;
- formulating an emergency response plan;
- conducting an annual hazard identification and risk assessment;
- identifying critical infrastructure;
- conducting an annual practice test;
- undertaking public education;
- designating an emergency management co-ordinator; and
- undertaking training.

In addition to the legislative requirements, other responsibilities for ministries and municipalities are outlined in the two provincial plans—the Provincial Nuclear Emergency Response Plan and the Provincial Emergency Response Plan.

EMO is given the responsibility by the legislation for creating and maintaining these two plans. On the basis of this responsibility, it has identified the additional requirements and recommendations included in these plans.

The Provincial Nuclear Emergency Response Plan is a Cabinet-approved document that outlines requirements for several organizations, such as nuclear power companies, municipalities in the immediate area of the nuclear power facilities, host municipalities where people affected by a nuclear emergency will go, specified ministries and federal departments. The plan requires ministries and municipalities to develop plans for their assigned responsibilities; for instance, the Ministry of Transportation oversees the development of traffic control plans for nuclear emergencies, in consultation with the Ontario Provincial Police, and municipalities in the area of nuclear power facilities are to have a public alert system.

The Provincial Emergency Response Plan is a Ministry-approved document that includes the general responsibilities for ministries and municipalities noted earlier as legislative requirements, and other added responsibilities such as making provision for persons with disabilities. It also includes specific responsibilities for organizations; for example, the Ministry of Natural Resources and Forestry is to provide flood and waterflow forecasting services, and the Ministry of Transportation is to co-ordinate the use of contracted equipment and engineering expertise.

Ministries and municipalities are expected to co-ordinate their emergency response plans with the two provincial plans, and their plans are expected to include all responsibilities assigned to them.

Oversight Process Does Not Ensure Co-ordination or Completeness of All Plans

EMO interprets its legislated monitoring responsibility as having the ministries and municipalities complete an annual self-assessment compliance checklist, which EMO reviews.

The compliance checklists include mandatory requirements found in the Act and its regulation. We noted, however, that the checklists do not include the responsibilities assigned by the two provincial emergency response plans noted in the previous subsection. We reviewed these additional

responsibilities at the ministries we visited that had been assigned specific hazards (see **Section 3.0**) and noted the following:

- The Ministry of Transportation oversees the development of traffic control plans in partnership with the Ontario Provincial Police and other responders. These plans are a critical component of evacuation planning, as some of Ontario's nuclear power facilities are located close to high-density population centres. The Ministry's traffic control plans for areas near nuclear power facilities are still in draft form, even though the Ministry has realized the need for updating them since the 2011 nuclear disaster in Fukushima, Japan.
- The Ministry of Health and Long-Term Care's Radiation Health Response Plan, which was a requirement in the 2009 Provincial Nuclear Emergency Response Plan, was not finalized until 2014—five years after it was required. The ministry informed us this was due in part to a number of other ministry emergency responses during this period.

EMO does not review each ministry's plans to ensure they are aligned with the provincial plan or with other ministry plans and, because it does not track these plans, it does not ensure that all required plans, such as plans for all specific hazards, have been prepared. Further, EMO does not ensure it has the most recent version of all plans, nor does it have a central storage place for the plans in case they are needed in an emergency, even though both of these are required under law.

We noted a best practice in an audit report from the Office of the Auditor General of Newfoundland and Labrador, where the emergency management office in that province reviews and approves all emergency response plans for municipalities, and recommends any necessary changes. This is meant to ensure that the plans include all required components and show evidence of regular updates. We also noted that offices in other jurisdictions such as Alberta, Nova Scotia and Prince Edward Island have the authority to require that plans be submitted for review and integration with the provincial plan.

Oversight Process Does Not Consider the Quality of Emergency Management Programs in Place

We found as well that the review of the annual self-assessment compliance checklists (compliance review) does not look at the quality of the emergency management programs. The ministries and municipalities simply indicate if they have met certain requirements with a brief explanation of how the requirement was met, such as having an emergency response plan and having performed practice tests for these response plans. This type of self-evaluation does not assess whether these plans and tests will help ensure that an organization is prepared to respond to a real-life emergency. For example, it does not assess whether the ministries' and municipalities' plans contain all the critical components they should have, or if the practice tests focused on high-risk areas and included all relevant parties.

We noted that the quality of the compliance review undertaken by EMO also needs improvement—for example, many files were missing supporting documentation to verify compliance, or were missing explanations to support the assessment given. Further, the extent of the review varied according to the reviewer, and we found that no supervisory review had been done to ensure the reviews are completed correctly and consistently. In addition, reviews were not performed or were incomplete in certain years: in 2014, no reviews were performed for ministries, and only some were performed for municipalities; in 2013, no reviews were performed for municipalities. As a result, there is no indication of whether ministries and municipalities were in compliance with legislation during those years.

For those organizations not in compliance with the legislated requirements, EMO does not have a follow-up process in place to ensure that corrections are made. It also does not analyze the results of the compliance review process to identify systemic problems and gaps that it may need to address across the province.

RECOMMENDATION 2

To ensure that the emergency management programs in place at Ontario's ministries and municipalities include all delegated responsibilities and are sufficiently preparing them to respond to emergencies, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office:

- assess whether the Chief of Emergency Management has sufficient authority under legislation to enforce the legal requirements of ministries and municipalities and whether changes are needed to obtain this authority;
- implement an oversight process that focuses on the quality and sufficiency of the emergency management programs in place;
- provide feedback to and work with non-compliant ministries and municipalities to ensure that they make timely improvements; and
- summarize and report on the results of the compliance reviews to identify systemic issues across the province.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation that the existing oversight and compliance review processes need to be improved.

The Ministry is currently developing an enhanced framework of requirements for Ontario's emergency management system, in order to establish clear expectations of all emergency management programs in Ontario.

The Ministry is working to enhance the existing compliance process to ensure that ministries and municipalities meet their requirements under the *Emergency Management and Civil Protection Act*.

The Ministry commits to reviewing the provincial emergency management requirements, and the existing compliance and oversight processes.

4.1.4 Insufficient Co-ordination and Support for Emergency Management in the Province

We noted that EMO is not sufficiently fulfilling its legislated role of co-ordinating and assisting ministries and municipalities with their emergency management programs. This has resulted in an environment where these organizations often work independently, with little of the support or tools they need to help manage their emergency management programs. This was a common theme in our discussions with these organizations; it leads to duplication of efforts and inefficiency, by requiring them to develop components of emergency response programs on their own.

Municipalities and ministries we spoke to informed us that they lacked support in the form of various templates and guidelines for items such as emergency response plans; plans for continuity of government operations; samples of practice tests; lists of best practices; information on lessons learned during past events; and avenues for sharing information. In contrast, we noted that some provinces put information on their public websites to assist organizations with their emergency management programs. For instance, Manitoba's website includes information and assistance for completing an emergency response plan, with a template and a set of instructions for using it. Alberta's website includes a planning guide for continuity of business (that is, continuity of government operations).

Support to Municipalities Does Not Ensure Readiness to Respond to an Emergency

Municipalities are the first to respond to emergencies at the local level, making it critical that they have effective emergency management programs they can put into action quickly. But in order to carry out their responsibilities in local emergencies, many municipalities require support from the Province.

EMO situates field officers throughout the province. These staff members are critical to the success of emergency management, as they are the day-to-day face of EMO for Ontario's 444 municipalities.

Their role is to help municipalities with training and practice tests, and with developing emergency management programs, and they advise and assist municipalities with their annual compliance requirements. They can also be deployed to help during emergencies. In total, 10 field officers are available to assist with municipal emergency management programs, resulting in an average load of 40 to 50 municipalities each.

In our interviews with municipalities, we found that the resources, expertise and state of preparedness at the municipalities varied widely. Although many of the large and some of the medium-sized municipalities say they do not require a great deal of assistance from the Province—some told us that their own level of expertise exceeds the field officers' expertise—most of the smaller ones do need a high level of assistance (for example, with practice tests or strengthening their emergency response plans). Yet many of those told us that EMO does not provide enough support to assist with their emergency management programs. One informed us that it was given more time with its field officer before amalgamation of EMO with the Fire Marshal's Office, when EMO had more staff available. Another municipality located near a nuclear facility informed us that local field officers in the past have not had sufficient experience with nuclear emergency management. This municipality feels it is highly important that the field officer for this area receive proper and timely training on nuclear risks from EMO. Representatives at another municipality said that they would like EMO to undertake more emergency practice tests that they could participate in.

These unequal levels of preparedness and support mean that some municipalities may not be adequately prepared to respond if a local emergency arises, resulting in different levels of public safety across the province in the case of an actual emergency. This puts an increased responsibility on the provincial government to come to the aid of the least-prepared areas.

The Province Does Not Have a Co-ordinated IT System in Place for Emergency Management

Information technology (IT) is a critical component of a co-ordinated provincial emergency management program. The Province does not yet have a co-ordinated IT system in place for emergency management, even though it has spent about $7.5 million for such a system.

In 2009, EMO began to implement a system known as the Emergency Management Enterprise Solution. The system was meant to provide real-time information to key stakeholders by being a single, central, secure, shareable information repository with an integrated geographic information (mapping) system and emergency alerts. EMO cancelled the project in 2015 before ever going live, after extensive delays, and after discovering user dissatisfaction and software defects.

Since there is no provincial IT system for emergency management, the ministries we visited were left to seek out their own tools to assist in managing their programs. We therefore found a variety of systems in use. Specifically, the Ministry of Health and Long-Term Care supported the procurement of an IT system for use by the health sector, the Ministry of Community Safety and Correctional Services and EMO were using a simple database as their system, and the Ministry of Transportation and the Ministry of Natural Resources and Forestry had no IT systems in place for emergency management.

We found that one consequence of this unsystematic IT approach is that there is a lack of important documentation available on past emergencies and related events. There is no complete list of all relevant events or information on how these events were handled (timing of actions, persons involved and decisions made). Having this information available after emergencies and events is important as a record of what occurred during the emergency and to help with lessons learned in order to make improvements for responses to future events (which we discuss further in **Section 4.4.4**).

We noted an example of the use of a co-ordinated IT system detailed in a report following Hurricane

Sandy, which struck the east coast of the United States in 2012. The *Hurricane Sandy FEMA After-Action Report*, by the U.S. Federal Emergency Management Agency (FEMA), noted that the use of the system facilitated information sharing and ensured that each party involved in the response shared a common operating picture. This in turn contributed to a unified response.

RECOMMENDATION 3

To ensure that the Province has a co-ordinated emergency management program in place that supports the ministries and municipalities with their emergency management programs and is able to share information in a timely manner, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office:

- review the needs of municipalities and its own staffing practices, and put in place the appropriate level of support and staffing required to assist all of Ontario's municipalities in preparing for emergencies;
- develop central resources, supports and best practices for emergency management to allow for better co-ordination, expertise and consistency of emergency management programs across Ontario; and
- review the information technology needs of the province and implement an effective, co-ordinated province-wide information technology solution.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation that the Province needs to enhance its existing support to municipalities and ministries in order to assist them in developing their emergency management programs.

Currently, the Ministry provides some supports to ministries and municipalities. For example, some exercising and training tools are available to municipal and ministry emergency management staff through an online portal and through a team of field officers.

The Ministry will prioritize how to address existing ministry and municipal needs by enhancing existing guidance and tools, and by assessing staffing needs to support the development of additional tools/resources consistent with national and international best practices.

The Ministry is also working with other ministries to procure an emergency management IT solution that can be used to support a co-ordinated response to provincial emergencies. This will include an enhanced capacity to share information, request and track resources, and support more rapid damage assessments. A broader review of ways to leverage additional technology to enhance emergency management programs, including response, will be undertaken.

4.2 Risk Identification and Assessment Processes Are Not Sufficient to Ensure the Emergency Management Program Includes All Areas of Concern

As described in **Section 2.4**, an important first step to build an effective emergency management program for Ontario is the identification and assessment of the province's potential hazards, critical infrastructure and time-critical services that need to be provided during an emergency. However, we found that the processes followed were not sufficient to identify the areas of risk that the province and ministries should focus their efforts on. This results in emergency management programs for the province and ministries that either do not include all risks or do not focus on the appropriate risks.

4.2.1 Provincial Risk Assessment Has Not Been Updated and Is Not Co-ordinated across the Province

Risk Assessment Has Not Been Updated for Recent Occurrences

The Act requires each ministry and municipality to conduct a hazard identification and risk assessment (together called "risk assessment" in this report) to identify hazards that may exist and assess the various risks to public safety that could give rise to emergencies. A risk assessment is also to be completed at the provincial level. Undertaking a risk assessment demonstrates which types of hazards are of concern and highlights those that need to be given priority. The results of the risk assessment process are to be used to establish the focus of the emergency management program.

The last provincial risk assessment was completed in 2012 and was based on information on emergencies in Ontario up to 2009. As a result, the current assessment does not consider emergencies that have occurred over the past eight years or the latest information on the effects of climate change and other risks whose frequency and severity may have changed, such as cyberattacks and terrorism. Risk assessment is meant to be an ongoing process as new hazards are identified and risk levels change.

When EMO completed the provincial risk assessment in 2012, it identified hazards that were not included in earlier assessments, such as cyberattacks, geomagnetic storms and meteorite crashes. But responsibility for these hazards has not been assigned to a ministry, because the last Order in Council was approved three years earlier, in 2009. By default, the new hazards have become the responsibility of the Ministry of Community Safety and Correctional Services, which does not have expertise in dealing with them. The Ministry has not incorporated these hazards into its emergency management program, and it has not developed emergency response plans to address them.

Risk Assessment Process Is Not Performed Collaboratively to Ensure a Co-ordinated Approach in the Province

The current approach in the province is that EMO, ministries and municipalities all undertake a risk assessment process independently of each other. This is another example of organizations working in silos rather than working collaboratively on emergency management. The Province completes its own risk assessment, even through the ministries have the subject matter expertise on the hazards, and municipalities have the local knowledge on where the hazards are likely to occur.

The best practices identified by our expert suggest that these processes should be done collaboratively to enhance discussions and understanding of the hazards, risks and vulnerabilities affecting the Province, and its preparedness priorities. Other jurisdictions, such as the federal government (through Public Safety Canada), have developed an all-hazard risk approach, which is a co-ordinated approach to risk assessment involving all departments and ministries that would be involved if a specific emergency were to occur. This approach recognizes that the ownership of risk is often shared across different ministries. Therefore, it brings all parties involved together in the risk assessment process.

RECOMMENDATION 4

To ensure that the provincial risk assessment is effective at identifying and assessing current hazards in Ontario, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office:

- undertake a comprehensive review and update of the provincial risk assessment, in collaboration with all ministries and municipalities;
- seek approval for the assignment of responsibilities for new hazards; and
- implement an ongoing cyclical review process using best practices.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendations to review and update the provincial risk assessment and implement an ongoing cyclical review process.

Work is under way on this initiative, including investigating options for how to share hazard-specific information with stakeholders in support of their planning efforts.

The Ministry is committed to reviewing the process by which emergency management responsibilities are assigned to ministries.

4.2.2 Critical Infrastructure Programming Is Not a Current Focus of the Emergency Management Program in Ontario

Before merging with the Fire Marshal's Office in 2013, EMO started work on a program to identify critical infrastructure in the province so it could be prioritized and protected in an emergency. This program was put on hold after the merger. The program was later transferred to the Executive Office of the Ministry and is still on hold.

The program identified nine sectors of critical infrastructure in need of protection and continuity planning in an emergency: food and water, electricity, transportation, gas and oil, financial institutions, telecommunication systems, public safety and security, government operations, and health. Many of these areas are the responsibility of the private sector, but they have an impact on government business and Ontarians.

Issues with critical infrastructure were identified in 2005 in an internal corporate review report, *Emergency Management Processes in the Ontario Public Service*. The report noted that sufficient processes were not in place for the Province to fulfill an appropriate leadership role to ensure that critical non-governmental infrastructure remains operational in times of emergency or disaster.

All areas of critical infrastructure were impacted during the southern Ontario ice storm of 2013, with the most serious result being failure of the energy supply. EMO issued a report after the event noting the need for organizations in the critical infrastructure sectors to collaborate and identify their interdependencies, and to develop plans to minimize disruptions across linked sectors. However, four years after the report was issued, the Province has not yet followed up on these recommendations. (**Section 4.4.4** discusses the importance of lessons learned from past events.)

4.2.3 Oversight Is Lacking to Identify Time-Critical Services and Develop Continuity Plans for Government Operations

Continuity planning for government operations is an important component of an emergency management program. Continuity plans contain contact information for essential staff, detailed processes of communication and guides to alternative work sites; they also prioritize time-critical activities within each ministry that need to continue during an emergency or to be restored quickly. Activities such as provincial highway maintenance, laboratory examinations and flood monitoring are some examples.

During a widespread emergency, the Province may have to allocate limited government resources (staff, vehicles, generators, health supplies and so on) to ministries with services of highest priority. To do so, it needs a comprehensive, prioritized list of all time-critical services in the province. EMO does not maintain such a list, even though it was recommended in an internal audit report in 2007, and again in reports in 2011 and 2013.

We also noted that the ministries we visited do not have adequate oversight practices in place for their continuity plans, which leaves open the risk that not all time-critical services have been identified and planned for appropriately. Three of the four ministries with specific hazards assigned that we visited (the Ministry of Community Safety and Correctional Services, the Ministry of Transportation, and the Ministry of Natural Resources and Forestry) performed no review to ensure that all

necessary continuity plans are completed. In fact, we noted that some continuity plans for government operations had not been prepared.

Further, the four ministries require different levels of approval for their branch continuity plans. For example, while the Ministry of Transportation requires an Assistant Deputy Minister to approve these continuity plans, the Ministry of Health and Long-Term Care and the Ministry of Community Safety and Correctional Services require a director's approval, and the Ministry of Natural Resources and Forestry requires a manager to approve the plans. Not having senior staff such as an Assistant Deputy Minister approve these plans is not a good practice, because in that case senior staff may not be aware of whether plans have been prepared for all time-critical services or if the plans are up to date and reflect current operations. In addition, although the emergency management branches of the four ministries set out the requirements for approval of their continuity plans, they did not verify that the specified level of approval was actually obtained.

There is no legislative requirement for municipalities to have continuity of operations plans, even though it is equally important for them to ensure that they can continue to offer time-critical services to their residents and businesses.

RECOMMENDATION 5

To ensure that all critical infrastructure and time-critical services in the province are appropriately identified, and that up-to-date plans are in place to protect critical infrastructure and maintain continuity of government operations, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office:

- develop and maintain a comprehensive listing and plans for the protection of critical infrastructure and all time-critical government services in the province;
- develop processes and supports to assist ministries with planning the continuity of their operations, including having an appropriate level of approval in place for the plans; and
- evaluate requiring municipalities to have plans for the continuity of their operations.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation.

The Ministry is exploring options to expand the Ontario Critical Infrastructure Assurance Program, while taking into consideration the confidentiality needs of owners.

With respect to time-critical government services, the Ministry works with ministries to identify and ensure the availability of such services. Through the provincial continuity of operations program, the government has plans in place to ensure the maintenance and restoration of time-critical services. The program establishes recovery time objectives within which critical services have to be restored. The Ministry will work with ministry partners to identify how best to prioritize critical services across the government.

The Ministry recognizes that municipal continuity of operations plans are an important part of an emergency management program. The Ministry will develop enhanced guidance and tools to support municipal continuity of operations plans. The Ministry will also consult with municipal stakeholders to determine whether continuity of operations plans should be a mandatory requirement of any future emergency management program regulations.

4.3 The Provincial Emergency Management Program Does Not Focus on All Five Components of Emergency Management

Ontario, like most other jurisdictions, bases its emergency management program on five interdependent components: prevention, mitigation,

preparedness, response and recovery. (We discussed these in **Section 2.4**.) The progression of emergency management according to the five components is to first try to prevent an emergency from occurring, and then to mitigate, or reduce, its impact. Emergencies that cannot be prevented or mitigated must be handled through preparedness and response activities, and may require recovery assistance. It is essential to know what can be prevented or mitigated in order to know the extent of the preparedness and response activities needed.

When the current program was set up in 2003, emergency management was divided up into three progressive levels of achievement: essential, enhanced and comprehensive. The comprehensive level included all five components. The plan for Ontario was to reach the comprehensive level by the end of 2006. Today, in 2017, emergency management programs in Ontario, including the provincial program, still focus predominantly on the essential level and only two components, preparedness and response. (The Ministry of Municipal Affairs is involved with recovery activities through its disaster financial assistance programs, as discussed in **Section 4.6**.) We did note some exceptions to this, such as at the Ministry of Health and Long-Term Care, which mainly focuses on mitigating the effects of potential medical emergencies. Because the provincial and ministry programs mainly focus on preparedness and response, we mainly focused our attention on these components during our audit.

All five ministries we visited told us that they are involved to some extent in activities that relate to the three other components—prevention, mitigation (as shown in **Figure 5**) and recovery. Most of these activities, however, take place outside of emergency management and are not taken into account by or co-ordinated with the activities of the ministries' emergency management branches. In addition, EMO does not maintain information on the mitigation and prevention initiatives undertaken in the province. As we have mentioned, keeping track of prevention and mitigation activities helps to determine the preparedness and response activities that are needed.

An expert we consulted advised us of the importance of having a strategy for all five components, which is consistent with how Ontario initially envisioned its plan for the emergency management program. Emergency management sees all five components as part of a continuum, or a feedback cycle, as **Figure 1** illustrates. The expert informed us that Ontario is the only province in Canada that assigns the responsibility for the financial assistance for recovery activities to a different ministry (the Ministry of Municipal Affairs) than the ministry responsible for the other components, which are the responsibility of EMO, with little co-ordination between the two.

After performing a risk assessment to identify and prioritize hazards, as described in **Section 4.2.1**, the next step for an emergency management program is to take every opportunity to prevent and mitigate the impact of hazards. It is important to assess the costs of prevention and mitigation efforts compared to the potential savings in response and recovery costs if preventive actions are taken ahead of time. If Ontario improved its prevention and mitigation activities, then the need for expensive recovery assistance in certain areas should decrease.

Several research studies have shown that funds invested in emergency prevention and mitigation can save money compared to what would be needed for response and recovery if an emergency occurs. For example, a report prepared by Public Safety Canada in March 2017, titled *2016–2017 Evaluation of the Disaster Financial Assistance Arrangements*, discusses reports on the benefits of mitigation efforts in several different countries. One report in particular referred to a 2005 study on earthquakes, floods and wind hazards prepared for the U.S. Federal Emergency Management Agency that indicated that the overall benefit-to-cost ratio is about 4 to1 (a savings of $4.00 in response and recovery costs for every $1.00 spent on mitigation). One of the conclusions in the Public Safety Canada report was that "mitigation is the most effective approach to

Figure 5: Examples of Mitigation and Prevention Activities Undertaken by Ministries Visited

Prepared by the Office of the Auditor General of Ontario

Ministry	Hazards	Mitigation/Prevention Activity
Community Safety and Correctional Services	Terrorism/CBRNE (chemical, biological, radiological, nuclear and explosive)	• Intelligence-gathering
	Freezing rain	• Consult with operational ministry partners (i.e., Ministry of Transportation to close highways or make de-icing recommendations)
	Snowstorm/blizzard	• Consult with operational ministry partners (i.e., Ministry of Transportation to close highways or make de-icing recommendations)
Health and Long-Term Care	Human health (e.g., diseases and epidemics)	• Immunization • Disease and outbreak monitoring
Municipal Affairs	Any emergency that requires the co-ordination of extraordinary provincial expenditures	• Developing technical standards for the construction of buildings • Leadership in land-use planning, such as not allowing development in flood plain areas
Natural Resources and Forestry	Flood	• Water level monitoring • Flood mapping • Pre-spring melt planning sessions • Maintaining sandbag stockpile
	Forest/wildland fire	• FireSmart Program (provides information to help prepare for and manage wildfires) • Road signs (e.g., safe campfires, restricted fire zones)
	Oil/natural gas	• Licensing wells • Providing well data to the public and municipalities • Natural gas storage inspections
Transportation	Transportation	• Provincial highways management and maintenance • Traveller information and highway messages • Road user safety campaigns

reduce costs associated with disaster recovery. The evaluation found that mitigation can improve disaster resilience of Canadian communities and reduce financial burden from future disasters."

Currently, the Canadian federal government's National Disaster Mitigation Program, a five-year program that began in 2015, is providing funding for mitigation projects intended to reduce the impact of flooding. The program offers municipalities and conservation authorities in Ontario the opportunity to increase their mitigation efforts. While the conservation authorities have been participating in the program with the support of municipalities, the municipalities themselves have been slow to respond. The Ministry of Municipal Affairs, which administers the program for Ontario, is currently trying to increase awareness of the program in the province so that more municipalities can benefit from it before it expires in 2020. Since the municipalities are on the front lines of responding to local emergencies, increasing their mitigation efforts could decrease their reliance on the Province if an emergency occurs.

RECOMMENDATION 6

To ensure that Ontario is making reasonable efforts to prevent potential hazards or mitigate their impacts, and that these efforts are co-ordinated with emergency management programs, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office work with ministries and municipalities to:

- determine what prevention and mitigation activities are being done in the province; and
- assess the costs and benefits of other prevention and mitigation opportunities to determine which ones to implement and incorporate into their emergency management programs.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's findings on the importance of prevention and mitigation as part of a complete emergency management program.

The Ministry acknowledges that current programs and legislation are focused on preparedness and response, and notes that it is important to recognize that there are other prevention and mitigation activities occurring in Ontario under other programs, outside of emergency management.

The Ministry will develop options to further enhance and co-ordinate Ontario's mitigation programming.

4.4 Emergency Preparedness Activities Need Improvement

4.4.1 Provincial Emergency Response Plans Have Not Been Updated for Recent Events

Although internal requirements call for the provincial emergency response plans to be fully updated every four years, the two provincial plans, the Provincial Emergency Response Plan and the Provincial Nuclear Emergency Response Plan (which are critical components of the emergency management program), have not been updated since 2008 and 2009.

Emergency response plans should be updated regularly to incorporate program changes and current best practices (such as the effective use of social media), and to maintain accurate information. Updates should also follow significant emergencies, practice tests whose results suggest improvements are needed, and worldwide events such as terrorist attacks or cyberattacks. Updates must also take into account new or developing factors that may increase the risk of emergencies, such as the effects of climate change. In this way, the most current plans can be used in emergency situations as a step-by-step guide on what to do, whom to contact, and where to find critical information.

Examples of relevant information that should be included in plans are the plans' relationships to other plans (for example, plans of other levels of government and other ministries); data on mutual aid agreements (see **Section 4.5.3**); and a list of core plan elements (for example, roles and responsibilities, procedures and guidelines, operations, training and testing).

Several events have occurred within and outside the province that suggest the need to update the plans dating from 2008 and 2009. For example, a report prepared after the 2013 ice storm by EMO noted the lack of a shared understanding of the roles that senior provincial officials are expected to undertake during an emergency. It recommended updating the provincial plan to define their roles and responsibilities, but this has not been done.

4.4.2 Ministry Response Plans Have Not Been Updated for Many Years

The Act requires each ministry to have a general emergency response plan. In addition, the ministries that have been assigned responsibilities for a specific hazard (**Appendix 1**) also need to develop plans for these hazards. Although the Act requires

these plans to be reviewed annually and updated as needed, we noted that many of the plans had not been updated for several years and there was no evidence of annual reviews being done. For example, the severe weather plan at the Ministry of Community Safety and Correctional Services was last updated in 2005; this is of concern due to the increasing effects of climate change and events such as the ice storm that hit southern Ontario in 2013. In addition, the same ministry last updated its terrorism and civil disorder plans in 2010. Given the events occurring across the world, this is an important plan to keep updated. Nevertheless, this ministry and the others were considered to be compliant by EMO according to the annual compliance review process we discussed in **Section 4.1.3**.

We noted that some sections of the plans at the ministries we visited were out of date or missing information, and did not incorporate lessons learned from past events. For example, the plans we reviewed lacked clarity relating to roles and responsibilities to ensure everyone involved understands what they need to do; did not include contact information for key personnel within the ministry or private-sector suppliers, or indicate where it could be found; and did not identify key stakeholders with response roles, such as suppliers and not-for-profit organizations. The plans also did not take into account social media as a powerful means of monitoring information and informing the public.

4.4.3 Approach to Practising for Emergencies Does Not Ensure Preparedness

An important aspect of preparing for emergencies is to perform practice tests for a simulated emergency with all relevant parties. Although we noted that all the ministries that we visited that had been assigned specific hazards were undertaking the annual practice test that the Act requires in order to evaluate their emergency response plans and procedures, we found that the current process is not ensuring that the ministries are adequately prepared to respond to an emergency. The Act also requires municipalities to conduct annual practice tests, which EMO monitors via the annual municipal compliance checklist.

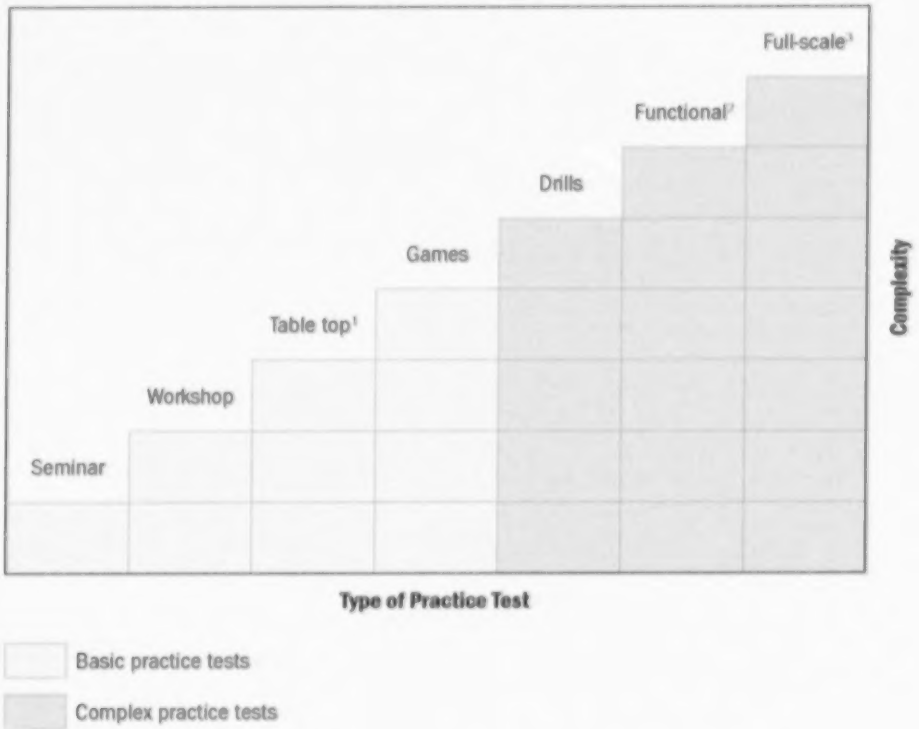
Our expert noted that best practices for practice tests suggest that they should be based on high-risk and high-consequence events and ensure that the plans are practised using a multi-year approach, usually three to five years. The practice tests should increase in complexity and scale over time, starting with basic practice tests that include discussions, seminars or workshops to familiarize participants with plans and policies, and then developing into complex practice tests that closely mirror a real event, with mobilization and deployment of resources and personnel. EMO includes similar information regarding the approach to practice tests on its website; **Figure 6** shows a "building block approach" of increasing complexity that it has developed, while **Figure 7** explains some of the differences between basic and complex practice tests.

During our review, we noted that none of the ministries visited had a multi-year strategy in place to ensure that all emergency response plans are tested periodically. More specifically, 82% of the practice tests performed were of the basic type (see **Figure 8**). Of further concern, for three of the ministries (the Ministry of Community Safety and Correctional Services, the Ministry of Health and Long-Term Care, and the Ministry of Transportation), the majority of the practice tests focused on plans for continuity of government operations, as opposed to response plans for specific emergencies. In general, the focus was on meeting the requirement in legislation of conducting one practice test per year rather than working toward the best preparation for responding to an emergency.

We also noted that about 50% of the complex practice tests performed over the past five years focused on nuclear emergencies. (Of all practice tests performed, 9% were complex nuclear emergency practice tests, compared to 18% in total that were complex tests.) However, complex practice tests should also be completed for other types of emergencies based on a multi-year plan, as noted

Figure 6: Increasing Practice Test Complexity Using the Building Block Approach

Source of data: Ministry of Community Safety and Correctional Services



1. Typically involve discussions regarding a hypothetical, simulated event, generally held in an informal setting.
2. Designed to test and evaluate, in a simulated real-time environment, multiple complexities, functions or activities including the movement of personnel and equipment.
3. Typically the most complex and resource-intensive type of practice tests: multi-agency, multi-jurisdictional practice tests test many facets of emergency response and recovery.

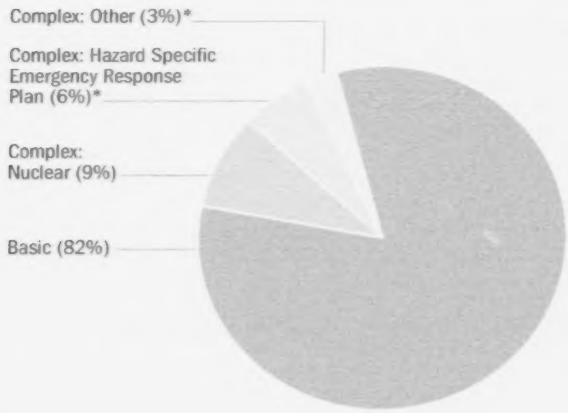
Figure 7: Differences between Basic and Complex Practice Tests of Emergency Preparedness

Source of data: Ministry of Community Safety and Correctional Services

	Basic Practice Tests	Complex Practice Tests
Purpose	Familiarize participants with current plans, policies, agreements and procedures	Validate plans, policies, agreements and procedures; clarify roles and responsibilities; and identify resource gaps in an operational environment
Structure	Aimed at facilitating an understanding of concepts and identifying strengths and shortfalls	Designed to test multiple activities and co-ordination of activities
Setting	Conducted in an informal setting intended to generate discussion of issues through seminars, workshops, tabletop activities and games	Performed in realistic environment Movement of personnel and equipment is simulated
Cost	Less costly	More costly, resulting from increased time and resource commitment during planning and execution

Figure 8: Proportion of Basic vs. Complex Emergency Practice Tests Done in Ontario, Excluding Continuity of Government Operations Plans, 2012–2016

Prepared by the Office of the Auditor General of Ontario



* Nuclear complex practice tests represent 50% of all complex practice tests.

previously. (No complex practice tests were conducted for floods, severe weather events and pandemics, for example.) In addition, we noted that there was only one government-wide complex practice test in the past five years other than for nuclear emergencies and special events, and it focused on the continuity of government operations.

The focus on practice tests for nuclear emergencies is driven by the licensing requirements of the nuclear power companies. The tests are paid for and organized by these companies and generally focus on their concerns. We noted that the tests mainly concentrate on events occurring inside the nuclear power facility—the responsibility of these companies; they usually do not extensively test areas outside the nuclear power facility—the Province's responsibility.

RECOMMENDATION 7

To ensure that the Province and its ministries are appropriately prepared to respond to an emergency, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office work with ministries to:

- annually review and update their emergency response plans for any recent events or best practices; and
- implement a multi-year testing strategy based on high-risk and high-consequence events that periodically tests emergency response plans using a variety of testing methods.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation relating to the importance of up-to-date emergency plans and regular testing.

The Ministry is currently revising the Provincial Nuclear Emergency Response Plan. Public consultations have been held and a new Plan will be published to incorporate feedback received and will ensure alignment with applicable national and international standards. The Ministry will work with other ministries and designated municipalities to ensure that their plans are reviewed and updated to conform to the new Provincial Nuclear Emergency Response Plan.

As well, the Ministry has begun a revision of the Provincial Emergency Response Plan. As part of this revision process, the Ministry will be consulting with stakeholders and establishing a continuous review cycle.

The Ministry is also developing a provincial multi-year testing strategy based on current risks, needs assessments, corrective action planning, and best practices with ministries and municipalities.

4.4.4 Lessons Learned from Past Events Have Not Been Used to Continuously Improve Emergency Management Programs

Emergency management operates on a cycle of continuous improvement. This includes:

- evaluating an emergency event or practice test of a response plan by reviewing what

happened, why it happened, and how it could be done differently to improve outcomes;
- making any needed updates to emergency management programs and response plans; and
- tracking, following up and reporting to management on the implementation results of recommendations received.

A report commissioned by the Alberta Emergency Management Agency on the Fort McMurray wildfires in 2016 noted that the use of a continuous improvement approach had a positive impact on the response. One example described how the emergency response leadership adapted to the rapidly growing need by assigning provincial employees from other branches to assist with staffing surge capacity problems. (**Section 4.5.1** discusses surge capacity issues we identified in Ontario.)

As noted in **Section 4.4.1**, Ontario does not regularly update or improve its emergency response plans after emergencies occur or when practice tests are undertaken. Neither EMO nor any of the ministries we visited that had been assigned specific hazards had a process in place to track and follow up on lessons learned from practice tests and actual emergencies to ensure they make improvements. As a result, there is a risk that previously identified issues will continue to occur. Examples we noted of recurring issues during recent emergencies in the province include:
- problems with the clarification of roles and responsibilities among responders and stakeholders (James Bay Coast flooding, 2014; Gull Bay highway flooding, 2014);
- issues with communication, including ensuring the appropriate organizations are included in teleconferences (southern Ontario ice storm, 2013; James Bay Coast flooding, 2015); and
- response plans that needed improvement, such as better integration between plans or updates to their content (southern Ontario ice storm, 2013; Gull Bay highway flooding, 2014; James Bay Coast flooding, 2015).

We found that there are no province-wide or ministry criteria to specify when lessons-learned reports should be completed and who should complete them. Our expert noted it is important to have an independent review conducted after a major event occurs.

We reviewed all the practice tests undertaken from 2012 to 2016 across the ministries we visited and found that only half of the reports had been prepared. Similar information is not available for the total number of emergency responses for those years due to a lack of documentation available on these emergencies.

Another important component of continuous improvement is monitoring and learning from global events. For example, following the Fukushima Daiichi nuclear disaster in Japan in 2011, several reports and studies examined lessons learned and ways to improve nuclear emergency management programs, such as reviewing and updating evacuation plans. It was not until 2017 that EMO proposed updates to the Provincial Nuclear Emergency Response plan, six years after the event. However, no changes have been made yet.

RECOMMENDATION 8

To ensure that lessons learned from actual past emergencies and practice tests for response plans are used to improve emergency management programs, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office work with ministries to:
- develop standardized criteria that specify when lessons-learned reports are to be completed;
- implement the recommendations of these reports in emergency management programs; and
- track and periodically report on the progress made in implementing them.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and recognizes the importance of identifying and tracking the implementation of lessons learned from events and exercises.

To improve the existing process, the Ministry will work with ministries to develop guidance on when lessons-learned reports should be completed and how recommendations should be addressed, tracked and reported on.

Currently, the Ministry has training courses for exercises that promote the development of lessons-learned reports and corrective action plans. The Ministry also conducts lessons-learned reporting on major provincial incidents (such as the 2013 southern Ontario ice storm).

4.4.5 Preparedness for Nuclear Emergencies Needs Improvement

EMO is responsible for the overall provincial response to nuclear emergencies. Ontario has three nuclear power facilities and 18 operating reactors, which makes it the largest nuclear jurisdiction in North America and one of the largest in the world.

The Canadian Nuclear Safety Commission oversees Canada's nuclear facilities. In an emergency, the Province has responsibility for the off-site response (outside the boundary of the nuclear power facility), while nuclear power companies and the federal government are responsible for the on-site response. EMO's responsibilities include maintaining a response plan for nuclear emergencies (which it has not updated since 2009) and participating in practice tests of the plan (see **Sections 4.4.1** and **4.4.3**).

EMO receives annual funding from nuclear power companies located in Ontario for the nuclear emergency management program. In each of the 2015/16 and 2016/17 fiscal years, it received a total of $1,125,000. The government's original intention for the funding was to recover 100% of the costs incurred for the nuclear emergency management program; however, there is no basis to support how the current level of funding was determined or what the funds are intended to cover. In addition, EMO was unable to provide any information on the actual costs spent to operate the provincial nuclear emergency management program. When EMO requested a funding increase in 2015 from $750,000 to the current amount, the nuclear power companies simply agreed. EMO could not provide us documentation to support either the old amount or the amount of the new request, except the observation that the funding had not been increased for some time. Although the funding is for the provincial nuclear program, it is not tied to any requirements or deliverables.

The nuclear emergency management program requires EMO to have its own staff with specific technical knowledge in order to assess risks and provide the Province with independent and objective advice. However, EMO has not kept this position filled at all times: the senior scientist position was vacant from July 2016 until April 2017. To compensate for this vacancy, EMO relied in part on a technical network of retired nuclear power company staff and a nuclear consulting group. In 2015, a staff member from a nuclear power company worked at EMO while being paid directly by the nuclear power company. This type of arrangement could pose a risk to EMO's objectivity.

Some neighbouring U.S. states have nuclear power facilities that could require an emergency response within Ontario. Yet Ontario municipalities that may be affected by the nuclear power facilities receive little assistance from the Province, in contrast to Ontario municipalities that may be affected by nuclear power facilities located inside the province—even though such assistance is a requirement of the Provincial Nuclear Emergency Response Plan.

Municipalities located near in-province nuclear power facilities receive assistance with the pre-distribution of thyroid blocking pills (KI pills), practice tests, and funding from the nuclear power companies to assist with their emergency management programs and response training. While the

nearby U.S. power company provides some funding to one municipality, the municipality does not think it is adequate to support its nuclear emergency program. In addition, the municipality told us that EMO also does not provide much support or assistance with regard to nuclear emergencies. As a result, it and other municipalities located near out-of-province nuclear facilities are left to fund much of their own emergency preparedness and response activities, even though off-site nuclear emergencies are the Province's responsibility.

RECOMMENDATION 9

To ensure that Ontario's nuclear emergency management program is effectively preparing the Province to respond to nuclear emergencies that may impact Ontarians, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office:

- use independent nuclear expertise at all times to assess nuclear risks, plans and response strategies;
- develop agreements with the Ontario nuclear power companies that state the requirements and deliverables for all parties;
- develop agreements with the U.S. nuclear power companies that state the requirements and deliverables for all parties; and
- provide the same level of support and assistance to municipalities regardless of whether a nearby nuclear facility is located inside or outside the province.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation, and recognizes the need for independence and clarity in its arrangements with the nuclear power companies, and for the need for all municipalities affected by nuclear facilities to receive the same level of support from the Province.

To improve the independence of its nuclear expertise, the Ministry has staffed the Senior Scientist position.

The Ministry is in the process of updating the Provincial Nuclear Emergency Response Plan, and as part of the development of the site-specific implementing plans will develop agreements with ministries, Ontario and U.S. nuclear power companies, and affected municipalities. These agreements will outline clear deliverables, support, outcomes and performance measures.

4.4.6 Public Education Currently Has Little Reach

The approach to emergency management in Canada, including Ontario, assumes that an individual or family will be self-sufficient for 72 hours during certain kinds of emergencies, such as some weather events or power outages, or if they need to be eventually evacuated from their home. If people are not aware of how to prepare for an emergency, they may be exposed to a number of potential risks if an emergency occurs, increasing their risks and the burden on municipalities and the Province for assistance.

According to a 2014 publication by Statistics Canada, only about half of Ontarians had engaged in any kind of emergency planning activities, which is slightly better than the results for Canada overall. About one-quarter of Ontarians had taken precautionary measures, such as storing water or obtaining back-up generators, which is similar to the national average.

The Act requires each ministry to provide public education on emergency preparedness. We noted that there are benefits to having a co-ordinated provincial approach to public education, which include providing a consistent message and increasing the reach of the information. However, there currently is no such approach in Ontario.

EMO has direct access to the National Alert Aggregation & Dissemination System and has the authority to issue public broadcast alerts in the

province using the system in the event of an actual emergency. Also, ministries and municipalities may request a public broadcast alert to be issued. Through the same system, the Ontario Provincial Police issues amber alerts and Environment Canada issues all alerts relating to weather. Currently, these alerts appear on television and radio stations. Starting in 2018, telecommunications companies will be required to provide cell phones with the capability to receive emergency alerts.

EMO uses the Internet and Twitter to provide public awareness regarding emergencies, and reinforces its messages during the annual emergency preparedness week in May. However, we found that EMO does not measure the impact of these efforts to see if they are effective. We found that EMO's current reach through Twitter is about 55,000 Ontarians, which is less than 0.5% of the population, and therefore may not yet be a very effective source of public education on preparedness.

EMO spent approximately $100,000 in 2011 on developing a mobile phone application (a "mobile app") to help with public education and information. It was not implemented, as it did not receive approval for use from the Communications Office within the Cabinet Office. We noted that other provinces such as Saskatchewan and Alberta have mobile apps available to assist in informing the public about emergencies and other incidents.

RECOMMENDATION 10

To ensure that Ontarians are informed on how to prepare for an emergency and on risks to be aware of in the province, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office work with ministries to:

- develop an appropriate and effective public education program on preparing the public for emergencies that the Province may face;
- implement the program; and
- assess the effectiveness of the program.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendations.

The Ministry will work with stakeholders to assess current public education programming, identify public education needs, and develop a year-round Ontario-wide public awareness strategy. The Ministry commits to working with ministries to enhance the assessment of public education program effectiveness.

4.5 Planning Improvements Are Needed to Prepare for Effective and Efficient Emergency Response to Potential Future Emergencies

An effective and efficient response to an emergency includes timely and accurate communication, understanding of roles and responsibilities, awareness of the situation as it develops, information sharing and identification of the needed resources. We have noted the following concerns with regard to Ontario's state of readiness to respond to potential emergencies.

4.5.1 Numbers of Trained Staff Are Not Sufficient for a Lengthy Emergency

EMO has not identified and trained sufficient staff from the Ministry or elsewhere who would be prepared to maintain the Provincial Emergency Operations Centre's activities around the clock during a lengthy large-scale emergency (longer than two weeks) or multiple simultaneous emergencies. The current plan is to have internal staff work shifts around the clock during a prolonged emergency response. With staff unable to work effectively around the clock for longer than two weeks, essential operations cannot be guaranteed past this limit. EMO told us that when it followed this plan during the spring 2017 floods, it did not have sufficient staffing resources.

We noted similar issues at the emergency operations centres of two of the ministries we visited: the Ministry of Health and Long-Term Care, and the Ministry of Transportation. For example, during the Ebola disease outbreak starting in 2014 (which did not reach Ontario), the Ministry of Health and Long-Term Care undertook mitigation work for eight months. It told us it activated its continuity of government operations plan so that it could focus on long-term monitoring of the situation.

During a prolonged emergency, it is common to reduce operations to a predetermined level of essential, time-critical services. To achieve this level without having to put all operations on hold, however, requires planning and support for additional staffing resources. EMO and the two ministries previously mentioned have not fully planned for a prolonged emergency.

As mentioned in **Section 4.4.4**, the report on the 2016 wildfires in Fort McMurray, Alberta, noted that having identified and trained provincial employees to fill a range of functions and supporting roles in the emergency operations centre in case an emergency arose was critical to sustain the response required during that long-lasting emergency.

4.5.2 A Standardized Approach to Emergency Response Has Not Been Mandated after Eight Years in Development

A best practice in emergency management is mandating the use of a standardized response approach, including a standard organizational structure, functions, processes and terminology for use at all levels of the response. However, Ontario has not mandated such an approach even though in 2009 it developed one that it intended to implement across the province—the Incident Management System (IMS). IMS has still not been adopted by all ministries and municipalities.

The use of a standardized approach to respond to emergencies can help avoid problems that can occur when multiple organizations are working together. It helps provide a common understanding of response functions, such as who is in control and who the decision-makers are. Several reports that reviewed past emergencies for lessons learned have made this point. The need to mandate a standardized approach was identified in the lessons-learned report following the SARS emergency in 2003, and again in the public inquiry report following the mall collapse in Elliot Lake in 2012, and in a lessons-learned report prepared by EMO on the 2013 ice storm.

As an example, in the mall collapse in Elliot Lake, it was noted that although the standard response approach was used, it was not fully adhered to or understood by all parties. The chief officer, who should have the final say on all decisions, did not exercise full authority. Also, although the local Ontario Provincial Police (OPP) division was in charge of the operation, when the specialized provincial OPP team arrived, it took over leadership responsibilities that it had no authority for. It was noted that this may have contributed to the delay in response.

RECOMMENDATION 11

To ensure that the Province is ready to respond to emergencies effectively, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office (EMO):

- approve and mandate a standardized emergency response approach for the Province; and
- work with ministries to develop a strategy for lengthy, large-scale emergency staffing requirements within EMO's and the ministries' emergency operations centres.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation.

The Ministry is currently reviewing the standardized emergency response approach and is working with stakeholders to ensure

its adoption across the province. In April, the Provincial Emergency Management Office re-established the Incident Management System (IMS) Steering Committee to guide this work. The committee consists of almost 30 organizations across Ontario.

The Ministry is committed to:

- revising the IMS Doctrine to make it simpler to use and to ensure alignment with contiguous jurisdictions;
- offering Ontario stakeholders access to a wider suite of courses focused on managing larger-scale and complex incidents; and
- developing a strategy to improve adoption by all responder organizations in Ontario.

The Ministry recognizes the importance of having sufficient staff for lengthy, large-scale emergencies. While the Ministry recognizes that some ministries and municipalities have surge capacity programs in place, the Ministry is working with stakeholders to develop an Incident Management Team/Incident Support Team (IMT/IST) program, to identify and train staff in advanced IMS functions to supplement capacity within emergency operations centres or at sites for extended, large-scale and complex emergency responses.

4.5.3 Agreements Are Not in Place for Resources That May Be Needed in an Emergency Response

Emergency management can improve the efficiency of the response to emergencies and reduce expenses if it anticipates the resources it may need and seeks out reliable sources for them at pre-established rates, and if it has put in place mutual agreements with other parties and establishes or makes arrangements for specialized teams. However, we found that EMO and most of the ministries we visited have few such agreements in place and have not even determined what types of resources they may need, as we describe in the following subsections.

The Province Has Few Mutual Aid Agreements in Place

It is important to have in place mutual aid agreements for emergency assistance. Such agreements, between the Province and other jurisdictions and levels of government, the private sector and non-governmental organizations, could provide for resources such as personnel, equipment, materials and services. EMO and three of the ministries we visited that had been assigned specific hazards (the Ministry of Health and Long-Term Care, the Ministry of Transportation and the Ministry of Community Safety and Correctional Services) had a minimal number of mutual aid agreements in place, while the Ministry of Natural Resources and Forestry had several of these agreements in place.

EMO recognizes that other cross-border agreements should be signed as well. It is currently reviewing how best to enter into these agreements.

The Province Does Not Have a Specialized Response Team to Assist During an Emergency

EMO does not have a specialized provincial response team in place, such as an all-hazard response team that can be brought in for any type of emergency. The concept of such a team was developed in 2008 with the intent to launch it in 2012, but the team is still not in place. The Province's lack of a specialized team was identified in the public inquiry report following the mall collapse in Elliot Lake in 2012, which noted that it should establish agreements with ministries to use their specialized teams and also should have its own specialized response team.

We noted that some specialized teams exist at the ministries we visited. For example, the Ministry of Natural Resources and Forestry's specialized response team includes additional trained staff ready to be deployed on a rotational basis as needed to assist with an emergency. The Ministry of Health and Long-Term Care has a special medical assistance team to provide surge support for medical emergencies.

Agreements for Goods and Services Are Not in Place

EMO and most of the ministries we visited had given little consideration to what goods and services they might need during an emergency, or to what arrangements they might need to make to obtain them at pre-established rates. Not having these arrangements in place can result in delays in obtaining these items or additional costs at a critical time. EMO created a supply chain group in 2008 involving members from all levels of government and the private sector, to provide strategic resources when and where they are needed during large-scale emergencies. However, it was never operationalized.

We noted the following specific issues:

- During the 2013 ice storm in southern Ontario, some municipalities requested help from the Province for debris management that required heavy equipment, chainsaws and other resources. Since the Province and ministries did not have any agreements in place for these types of services, the municipalities had to pay the rates that were being asked at the time of the emergency. We noted instances where these rates varied significantly between municipalities, for example, from $123 to $345 per hour for similar services.
- Although the Ministry of Health and Long-Term Care currently has a stockpile of over 26,000 pallets of supplies for medical emergencies, including respirators, face shields, needles, disinfectant wipes, disposable thermometers and other items, more than 80% of these supplies have reached their expiry date. The original cost of the expired supplies is approximately $45 million. Although the ministry has donated a small amount of supplies to two other countries for emergency situations, it did not put the majority of these supplies into circulation within the healthcare system so that they could be used before expiring. The ministry informed us that its budget for these supplies only allowed for storage and not the management of them. The Ministry of Health and Long-Term Care continues to pay to store these expired supplies at a cost of over $3 million per year. The ministry has started to dispose of some of the expired supplies. For example, it disposed of a relatively small amount (7%) of the total expired supplies last year—1,500 pallets—at a cost of $370,000. It will continue to incur these storage and disposal costs until all the expired supplies have been disposed of.

We found one ministry, the Ministry of Natural Resources and Forestry, that planned ahead and has an inventory of sandbags available that are used within the ministry and can be requested by other ministries and municipalities through a cost-recovery program.

RECOMMENDATION 12

To ensure that the Province is ready to respond to emergencies efficiently and economically, we recommend that the Ministry of Community Safety and Correctional Services through the Provincial Emergency Management Office:

- work with ministries to ensure that they plan for and enter into all relevant agreements and plans for any resources that may be needed during an emergency and, whenever possible, ensure that these agreements specify pre-established rates for these resources;
- work with ministries to ensure that they plan for and enter into all relevant agreements and plans for any services that may be needed during an emergency and, whenever possible, ensure that these agreements specify pre-established rates for these resources; and
- develop its own specialized response team.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and recognizes the need to establish agreements for key services and

resources that may be needed during an emergency before any events occur.

The Ministry is working on a process intended to expedite the emergency procurement process, as well as to ensure that prices paid are fair and reasonable. This work will include a variety of services and resources that might be required in an emergency. Options for bolstering capacity in a variety of additional functional areas (for example, heavy equipment, emergency feeding, and others) will be developed.

The Ministry will explore options to ensure Ontario can enter into mutual aid arrangements with contiguous provinces and states. Options for a province-wide mutual aid system will also be developed.

As noted above, the Ministry is also working with stakeholders to develop an Incident Management Team program in order to identify and train staff to supplement response capacity.

4.6 Financial Assistance Recovery Programs Lack Timeliness and a Consistent Approach to Handling Claims

The Public Accounts of Ontario reported expenditures of almost $50 million under various disaster financial assistance programs to cope with the consequences of natural disasters since the 2012/13 fiscal year. Of these expenses, 71% were for the program for municipalities, and 29% were for the program for Ontarians (including individuals, small businesses, farms and not-for-profit organizations). In addition, Ontario paid $136.9 million by way of a special program (before receiving the federal reimbursement) to municipalities and conservation authorities for the consequences of the 2013 southern Ontario ice storm.

A recent review of provincial disaster financial assistance programs to help Ontarians recover from disasters resulted in two new programs, mentioned in **Section 2.5**, that began operating in March 2016: Disaster Recovery Assistance for Ontarians (for homeowners, tenants, small owner-operated businesses and farms, and not-for-profit organizations), and Municipal Disaster Recovery Assistance. The new programs included changes intended as improvements over the previous program, by clarifying the program and eligibility guidelines, lowering the eligibility threshold for municipalities, extending the timeline for municipalities to submit claims, introducing cost-sharing for municipalities, and introducing special provisions for low-income households (see **Figure 9**).

4.6.1 Financial Assistance Recovery Programs Do Not Provide Timely Assistance

The Ministry of Municipal Affairs has set its target for finalizing and making payments for 80% of the eligible claims to individuals under Disaster Recovery Assistance for Ontarians to within eight months following the activation of this program. However, only approximately 40% of claims met this target during the program's first year, 2016, although approximately 60% of the claims were closed within eight months of receiving the claims. Still, this is an improvement over the previous program, which generally took a year or longer for claims to be paid. However, as of the end of August 2017, more than 25% of all claims submitted for events in 2016, which is at least 10 months after the last event occurred (events occurred from March to September 2016) had not been paid. These claims were made by people who experienced hardship, and it is therefore critical that they be reimbursed in a more timely manner.

There is no defined time frame for the activation of the Disaster Recovery Assistance for Ontarians program. We noted that with natural disasters, the 2016 assistance programs were activated from five to 27 days after the damage. It is important that Ontarians in need are informed as to whether financial assistance will be provided in a timely manner.

The Municipal Disaster Recovery Assistance program was activated four times during its first year, 2016. On average, the claims were paid within eight

Figure 9: Summary of Changes to the Provincial Financial Assistance Programs

Source of data: Ministry of Municipal Affairs

Area of Concern	Previous Program	New Program
	Assistance to Municipalities	
	Ontario Disaster Relief Assistance Program	**Municipal Disaster Recovery Assistance Program**
Predictability: Program guidelines	Municipalities unclear of which circumstances qualify for assistance	Program guidelines with detailed eligibility information
Accessibility: Threshold for qualifying	4% of municipality's Own Purpose taxation levy*	3% of municipality's Own Purpose taxation levy*
Responsiveness: Submission deadline	14-day time frame for submitting disaster assistance requests based on estimates	120-day time frame to request provincial assistance based on actual costs
Fairness: Cost sharing	Municipalities receive either 0% or 100% reimbursement	Cost-sharing formula up to 95% reimbursement
	Assistance to Individuals and Others	
	Ontario Disaster Relief Assistance Program	**Disaster Recovery Assistance for Ontarians Program**
Transparency: Program guidelines	No published caps, deductibles, eligible or non-eligible expenses	Program criteria and guidelines include published caps and deductibles
Fairness: Fundraising	Province paying up to $2 for every $1 raised	No fundraising requirement; assistance provided based on program guidelines
Fairness: Cost sharing	Paid up to 90% with no deductible	Cost subject to a $500 deductible and paid at 90%
Accessibility: Low-income households	No special provisions	Special provisions (waiver of deductible; eligibility of sewer back-up)

* A municipality's Own Purpose taxation levy is generally the amount of tax a municipality is eligible to collect to fund its own budget, less some adjustments.

months of the submission date. However, there is no target for when payments should be made under this program.

4.6.2 Federal Government Reimbursement for Disaster Not Requested in a Timely Manner

As seen in **Figure 10**, for the 2013 southern Ontario ice storm, it was not until February 2014 that a special assistance program was announced, two months after the storm. Then it was not until September 2014, nine months later, that the program guidelines and claim form were released. The Province made payments for this program from March 2015 to June 2016, up to two-and-a-half years later, totalling $136.9 million. However, it was not able to request an advance from the federal government as it did not meet the requirement of making payments within 12 months of the event. Further, it has not filed a request for an interim payment with the federal government. The opportunity to do so has now passed due to the fact that it has filed the final claim with the federal government (see **Figure 10**). Historically, payments from the federal government have been finalized between seven and 10 years after the event, so a timely request for an advance or an interim payment is important for the Province's cash flow while waiting for reimbursement.

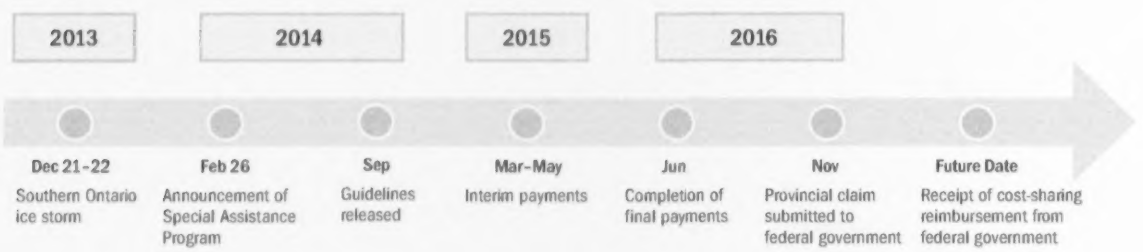
4.6.3 Improved Policies and Procedures Are Needed to Ensure Consistency and Proper Verification of Claims Submitted

Based on a review of claims that had been paid for the two new financial assistance recovery programs, we noted that policies and procedures were applied inconsistently when processing claims. Guidelines are lacking or unclear, leading to exceptions and judgment calls in program administration. We also noted a significant amount of back and forth communication between the ministry (or its contracted service providers who review claims for Disaster Recovery Assistance for Ontarians and reviewed claims for the 2013 southern Ontario ice storm financial assistance program) and claimants on issues with claim submission, which created inefficiencies and increased the time needed to process the claims.

In addition, in reviewing the special program for the 2013 ice storm, we noted several instances where invoices did not contain sufficient detail for us to determine what the claimed expenses were for, or if they even related to ice storm damage. For example, in some instances there was no description of the extent or type of work conducted or the time period the work was for. Further, we noted the use of an informal appeal process for handling disputes after the final claim amount was determined, which created an unfair process for those not aware of this option. This process was not documented in the program guidelines.

Figure 10: Timeline for Ice Storm Assistance Program

Prepared by the Office of the Auditor General of Ontario



4.6.4 Financial Assistance Recovery Programs Do Not Encourage Prevention and Mitigation

Ontario's financial assistance recovery programs are designed to fund repairs back to pre-disaster conditions only, even though it may be beneficial to build better replacement structures to reduce vulnerability to future emergency events. For example, when a water tunnel under a road collapses, the road may flood and give way. Rather than replacing the tunnel as it was when it failed (risking that the same failure could happen again), improving the tunnel could potentially prevent or mitigate the damage from future similar emergencies.

The concept of building back better ties into the five components of emergency management, as the prevention and/or mitigation of future damage could be among the benefits resulting from recovery efforts. Building back better is also one of four priorities under the United Nations Sendai Framework for Disaster Risk Reduction, which Canada has signed on and made a commitement to. This framework focuses on preventing new risks and reducing existing risks of disasters. This is done through mitigation and prevention actions, which have been proven to be more economical than the cost of response and recovery, as noted in **Section 4.3**.

RECOMMENDATION 13

To ensure that the provincial government provides timely and consistent financial assistance to those who are affected by the consequences of natural events, and to encourage prevention and mitigation efforts, we recommend that the Ministry of Municipal Affairs:

- implement processes to allow for the more timely review and payment of claims;
- document the requirements for its claims review processes and ensure that policies and procedures are in place and are applied consistently; and
- consider adding prevention and mitigation incentives to avoid similar consequences from potential future emergencies to financial assistance programs.

MINISTRY RESPONSE

The Ministry of Municipal Affairs (MMA) agrees with these recommendations and recognizes the importance of providing financial assistance quickly to people who experienced hardship, while maintaining appropriate review and approval processes to ensure public funds are expended properly.

MMA recognizes that significant efficiencies can be achieved if better-quality and more complete applications are received and has taken steps to address this for both disaster programs, including providing better guidance and holding public and municipal information sessions after a natural disaster. More MMA and claims adjusting staff have also been hired to speed up the process. MMA will continue to implement processes to allow for more timely review and payment of claims, while maintaining the oversight needed in administering publicly funded programs. MMA will also review and update its claims review processes and associated policies, procedures and documentation, and apply them consistently. Currently, MMA is working with the Office of the Provincial Controller Division to improve process mapping and internal controls documentation for the programs.

Through building code and land-use planning policies, MMA works to mitigate the potential impacts of disasters before they occur by encouraging the development of resiliently planned communities and requiring well-sited, safe, sound structures. We acknowledge the opportunity to reduce the need for disaster recovery financial assistance through investments in climate change adaptation and will assess the cost/benefit of adding incentives to our disaster recovery programs to support climate resilience.

4.7 The Province Does Not Measure the Performance of Its Emergency Management Program or the State of Readiness in Ontario

The readiness of the Province to respond to emergencies is a key measure of an emergency management program. Yet EMO has not established any performance measures relating to the delivery of program objectives or the effectiveness of the provincial emergency management program. We were told by EMO that it does not know what the overall state of readiness is in Ontario. Similarly, none of the ministries that we visited that had been assigned specific hazards had developed any specific performance measures for their emergency management programs.

Although EMO tracks and reports basic statistical data relating to the provincial emergency management program, such as the number of locally declared emergencies, number of community evacuations required during emergencies and percentage of community populations evacuated, we found that documentation was not always available to support or verify this information.

Examples of performance data that goes beyond basic statistical data and that can be used to evaluate and improve an emergency management program include:

- the frequency with which hazard identification and risk assessment are conducted, and the extent to which data is incorporated into emergency management programs;
- the degree to which emergency management plans reflect best practices and are current; and
- the percentage of lessons learned identified in practice tests that have been implemented.

Measuring and reporting on performance can inform management and other stakeholders on the progress of the emergency management program and whether program objectives are being met sufficiently. It could also assist the oversight body—the Cabinet Committee on Emergency Management—with its mandate, which is to ensure that Ontario is prepared to address emergencies that may arise. We noted that a best practice in another jurisdiction is to include its state of readiness among the performance information contained in its annual report, highlighting strengths, weaknesses and areas for improvement.

RECOMMENDATION 14

To ensure that the Provincial Emergency Management Office (EMO) and ministries are held accountable for Ontario's state of readiness and that information is available on the performance and effectiveness of their emergency management programs, we recommend that the Ministry of Community Safety and Correctional Services, working through EMO and ministries:

- identify appropriate performance measures related to the emergency management programs' objectives;
- regularly assess the programs' performance; and
- report publicly on the results.

MINISTRY RESPONSE

The Ministry recognizes that performance measurement is important to ensure that emergency management programs are effective.

The Ministry annually reports on the municipal and ministry compliance with the *Emergency Management and Civil Protection Act*. Additionally, the Ministry reports statistical information on emergencies that occur in the province on an annual basis, including performance data for the Provincial Emergency Operations Centre.

The Ministry will review best practices in emergency management and performance management to inform the development of performance indicators. The Ministry will use these performance indicators to assess program performance and will report on results.

Appendix 1: Assignment of Emergencies to Ministries by Order in Council, by Risk Level

Source of data: Ministry of Community Safety and Correctional Services

Assessed Risk[1]	Hazard[1]	2009 Order in Council Assignment of Emergency Management Responsibilities
Extreme	Freezing rain	Community Safety and Correctional Services
	Snowstorm/blizzard	
	Tornado	
	Hazardous materials incident	Environment and Climate Change[2]
	Human health	Health and Long-Term Care
	Flood	Natural Resources and Forestry[2]
	Forest/wildland fire	
Very High	Geomagnetic storm	Community Safety and Correctional Services
	Terrorism/CBRNE (chemical, biological, radiological, nuclear and explosive)	
	Drinking water	Environment and Climate Change[2]
	Oil/natural gas	Natural Resources and Forestry[2]
High	Agricultural and food	Agriculture, Food and Rural Affairs
	Nuclear	Community Safety and Correctional Services
	Drought/low water	Natural Resources and Forestry[2]
	Critical infrastructure failure	Responsibility varies depending on the nature of the infrastructure failure
Moderate	Civil disorder	Community Safety and Correctional Services
	Cyberattack	
	Earthquake	
	Human-made space object crash	
	Windstorm	
	Landslide	Natural Resources and Forestry[2]
	Transportation	Transportation
Low	Building/structural collapse	Community Safety and Correctional Services
	Explosion/fire	
	Extreme temperatures	
	Hurricane	
	Natural space object crash	
	Radiological	
	Dam failure	Natural Resources and Forestry[2]

Assessed Risk[1]	Hazard[1]	2009 Order in Council Assignment of Emergency Management Responsibilities
Very Low	Fog	Community Safety and Correctional Services
	Hail	
	Lightning	
	Sabotage	
	Special event (e.g., Pan Am Games, concerts, policital rallies, etc.)	
	War and international	
	Energy supply	Energy[2]
	Erosion	Natural Resources and Forestry[2]
	Land subsidence (e.g., sink holes, drainage of organic soils, etc.)	Natural Resources and Forestry[2]
	Mine	Northern Development and Mines[2]

1. Assessed risk and type of hazard from the 2012 Provincial Hazard Identification and Risk Assessment. Assessed risk is based on frequency, consequences and changing risk (future projections) of the hazard.
2. Ministry assignments from the 2009 Order in Council have been updated to reflect current ministry names.

Appendix 2: Assignment of Emergencies to Ministries by Order in Council, by Functional Categories

Source of data: Ministry of Community Safety and Correctional Services

Type of Emergency	2009 Order in Council Assignment of Emergency Management Responsibilities
Any emergency related to the administration of justice	Attorney General
Provision of legal services to government in an emergency	
Any emergency that requires emergency shelter, clothing and food; victim registration and inquiry services (i.e., direct support for family members of missing persons); personal services	Community and Social Services
Any emergency that requires the co-ordination of provincial emergency management	Community Safety and Correctional Services
Any emergency that requires the continuity of provincial government services	
Any emergency that affects worker health and safety	Labour
Any emergency that affects labour relations and human resource management in the provincial government	Government and Consumer Services[1,2]
Any emergency that requires the co-ordination of extraordinary provincial expenditures	Municipal Affairs[2]
Any emergency that requires the support of provincial emergency management in Northern Ontario	Northern Development and Mines[2]
Health services in an emergency	Health and Long-Term Care

1. Treasury Board Secretariat is now the responsible ministry.
2. Ministry assignments from 2009 Order in Council have been updated to reflect current ministry names.

Appendix 3: History of Emergency Management in Ontario and Selected Related Events

Prepared by the Office of the Auditor General of Ontario using reported data and data from the Ministry of Community Safety and Correctional Services

Period	Evolution of Emergency Management in Ontario	Select Significant Events in Ontario	Select Significant Events outside of Ontario
1950–1969	• Emergency Measures Ontario was formed • Focus on preparedness for nuclear attack • Emphasis on continuity of government and public preparedness • Provincial leadership role and local volunteers/programs	• Polio epidemic • Hurricane Hazel • Northeast blackout	• Red River flood • Alaska earthquake
1970–1979	• Decentralized: Emergency Measures Ontario disbanded • Ministries given leadership for hazard-based programs	• Sudbury tornado • Mississauga train derailment	• Typhoon Nina • Three Mile Island nuclear plant "meltdown"
1980–2000	• Emergency Planning Ontario formed in 1980 and later changed its name to Emergency Measures Ontario • *Emergency Plans Act* (1983)	• Barrie tornado • Eastern Ontario ice storm • Walkerton *E. coli* outbreak	• Chernobyl nuclear disaster • Exxon Valdez oil spill
2001–2010	• Emergency Measures Ontario changed to Emergency Management Ontario (2003) with the passing of new legislation • *Emergency Management and Civil Protection Act* (2003, 2006, 2009) • Province of Ontario Emergency Response Plan (2008) • Province of Ontario Nuclear Emergency Response Plan (2009) • Order in Council for assignment of types of emergencies (2009) • Continuity of government operations program moved from Ministry of Government Services to Emergency Management Ontario (2009)	• SARS outbreak* • Blackout* • Peterborough floods • H1N1 influenza pandemic	• Indian Ocean tsunami • Hurricane Katrina • BC wildfires • Haiti earthquake • 9/11
Since 2010	• Hazard Identification and Risk Assessment (HIRA) (2012) • Amalgamation of Emergency Management Ontario and the Office of the Fire Marshal (August 2013) • Provincial reviews of the disaster relief program and emergency management (2015, 2017) • New Provincial Emergency Operations Centre (2015)	• Goderich tornado • Elliot Lake mall collapse • Southern Ontario ice storm • Toronto flash floods	• Fukushima nuclear disaster • Hurricane Sandy • Lac Mégantic train derailment • Ebola disease outbreak • Fort McMurray wildfire • Hurricanes Harvey, Irma and Maria

* Declared provincial emergencies (under previous legislation).

Appendix 4: Description of Roles and Responsibilities of Participants in Emergency Management in Ontario

Prepared by the Office of the Auditor General of Ontario

Participant	Roles and Responsibilities
Federal Government	• Provides assistance to the provincial government when requested, and may take the lead during emergencies that clearly impact or come under federal jurisdiction.
Lieutenant Governor; Premier	• Have the power to declare a provincial emergency.
Cabinet Committee on Emergency Management	• Provides strategic direction on issues that pertain to provincial emergencies referred to this committee by Cabinet or the Premier's Office. • Overall responsibility for ensuring the Province is prepared to address emergency situations. • Assumes other emergency management responsibilities that Cabinet considers appropriate.
Commissioner of Emergency Management	• Overall responsibility for provincial management of emergencies.
Chief of Emergency Management	• Oversees the day-to-day operations of emergency management. • Responsible for monitoring, co-ordinating, and assisting in the development of emergency management programs for ministries and municipalities.
Provincial Emergency Management Office	• Located within the Ministry of Community Safety and Correctional Services. • Responsbile for the overall co-ordination of emergency management in the province. • Maintains the provincial emergency response plans used to co-ordinate the overall provincial emergency response. • Maintains the Provincial Emergency Operations Centre. • Monitors ministries and municipalities for compliance with legislation. • Prepares the provincial hazard identification and risk assessment. • Responsible for the overall provincial off-site response to nuclear emergencies (nuclear power companies are responsible for the on-site response).
Ministries	• All ministries are required to have an emergency management program including an emergency response plan, emergency operations centres, hazard identification and risk assessment, ministry action group (to carry out ministry responsibilities and direct ministry actions) and ministry emergency management co-ordinator. • In addition, 13 different ministries have been assigned responsibility for specific types of emergencies, including responsibility for an emergency response plan for the specific type of emergency assigned. See **Appendices 1** and **2**.
Municipalities	• Manage local emergencies (main party involved with emergency response in the local area). • Emergency programs include the creation of community emergency management programs, plans, forming municipal emergency management control groups (responsible for the monitoring and control of the emergency response, establishing emergency operations centres and having a community emergency management co-ordinator). • Emergencies are declared by the head of council; the Province must be notified.
Individuals	• Individuals are expected to be self-sufficient for 72 hours during an emergency.

Appendix 5: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	There is sufficient oversight and co-ordination over emergency management functions within the Province, including those within and among ministries and municipalities, to ensure compliance with legislated requirements and policies and to keep Ontarians safe.
2.	Emergency management plans are based on a thorough risk identification and assessment process with a clear assignment of responsibilities of various types of emergencies to appropriate parties. Plans are regularly reviewed, tested and updated accordingly, using knowledge gained from testing and past experiences.
3.	There are clear objectives for emergency management plans and programs within the Province that are consistent with the overall provincial emergency management mandate. Performance measures and targets are established, monitored and compared against actual results to ensure that the objectives are achieved and that corrective actions are taken on a timely basis when issues are identified.
4.	Emergency management information systems provide timely, accurate and complete information to assist with emergency management and performance measurement and public reporting.
5.	Emergency management programs and functions are efficiently managed, and goods and services are acquired economically and in accordance with government requirements.

Ministry of Agriculture, Food and Rural Affairs

Farm Support Programs

1.0 Summary

Ontario's 49,600 farms cover 12.3 million acres and account for one-quarter of all farms in Canada. In 2016, Ontario's agricultural sector contributed $4.4 billion to the provincial economy and employed almost 78,000 people.

Farmers face two broad categories of operating risks that can affect their profitability and the quality and/or quantity of the commodities they produce:

- **Production risks** relate primarily to the impact on production of such factors as harsh weather, disease and pests.
- **Price risks** relate to fluctuations in the cost of goods and services used to produce commodities, and in the selling prices for those commodities.

The federal, provincial, and territorial governments share responsibility for developing programs to help farmers manage these risks. In Ontario, the Ministry of Agriculture, Food and Rural Affairs (Ministry) is responsible for farm-support policy decisions, and oversees the delivery of programs. Agricorp, an Ontario Crown agency, delivers most programs. From 2012/13 to 2016/17, the federal government and the Ministry spent a total of $2.3 billion on farm-support programs in Ontario.

Ontario farmers receive financial assistance primarily through **business-risk-management programs** that aim to help farmers reduce income losses due to low commodity prices, decreased production, or natural disasters. The four business-risk-management programs that provide financial assistance to farmers are:

- **Production Insurance**, which compensates crop farmers for lower yield due to adverse weather, wildlife, pest infestation or disease;
- **AgriStability**, which compensates farmers for significant drops in their farm income;
- **AgriInvest**, which is a savings program (to help farmers manage small decreases in income) in which the federal and provincial governments match farmers' deposits; and the
- **Ontario Risk Management Program**, which compensates livestock, grains, and oilseed farmers when the cost of producing their commodities exceeds their market value. For fruit and vegetable farmers, the program works similarly as AgriInvest.

To a lesser extent, cost-sharing programs for strategic initiatives, which aim to encourage innovation and increase competitiveness in the agricultural sector, provide funding to farmers to help cover part of the cost to implement best practices in farm management.

The federal, provincial and territorial governments' overall objective for farm-support programs

is to help the Canadian agricultural sector be profitable, sustainable, competitive and innovative. The various business-risk-management programs are intended to work as a suite to provide farmers with a choice of programs that best suit their individual operations.

Production Insurance appears to help most crop farmers manage production losses by allowing farmers to select the level of coverage and receive payments in the same year they incur the loss. However, our audit found that weaknesses in the design of the other business-risk-management programs limit the ability of the entire suite to provide appropriate support to help farmers manage their risks. We found that:

- **The $100-million-a-year Ontario Risk Management Program often pays farmers with little regard to individual need.** Our analysis of program payments from 2011 to 2015 found that only half of farmers who received payments over that period (an average of $11,000 each) actually reported either a loss or a drop in income in the year they received the payment. In other words, farmers received payments even though they did not incur any reduction in income, contrary to the intent of the program. This is because program payments are based on the industry-average production cost and not on farmers' individual costs. In fact, we found that 30% of payment recipients during that period actually reported higher income in the year they received assistance than the year before. For example, nearly a quarter of the 4,900 payment recipients reported positive operating income in 2015 and also reported that their operating income increased by an average of $106,000 (44%) compared to 2014.
- **The Ontario Risk Management Program benefits large farms.** The program's design, based on the industry-average production cost, favours efficient farms with lower production costs than the industry-average. Cost efficiencies can be more easily achieved by large-scale farmers due to greater economies of scale. As a result, large farms receive payments based on the higher industry-average production cost even though it cost them less to produce their commodity. For example, one hog farmer received $827,000 in 2015. The farm's actual production cost was $36.4 million but the farmer received payment based on the industry-average cost of $66.3 million. If payment was based on the farm's actual production cost, the farmer would have received no payment.
- **Low farmer participation limits AgriStability's capacity to provide support.** The number of farmers participating in AgriStability has decreased by half in the last 10 years. Between 2011 and 2015 alone, participation fell by nearly one-third. Farmers have cited insufficient support and delays in payments as reasons for dropping out.
- **Farmers do not benefit equally from AgriStability.** Of the over 21,000 grains and oilseed farmers' (the largest agricultural sector in Ontario) applications for AgriStability from 2013 to 2015, 10% actually triggered payments, compared to 21% of cattle farmers' applications, despite more grains and oilseed farmers experiencing large declines in their net income over the same period. This is because the biggest expenses for grains and oilseed farms—equipment purchase/maintenance and land purchase/lease—are not taken into account when calculating payments.
- **Changes to AgriStability in 2013 lowered coverage and payments to farmers.** The intent of these changes was to provide support only for "disaster-level income declines" and compensate farmers for losses rather than lower profits. One of the changes has affected over half of the more than 44,000 farmers who applied for AgriStability since 2013, resulting in many farmers either receiving lower payments than they would have prior to the changes, or no payment at all.

For example, one farmer received $455 to compensate for a $174,000 (or 64%) drop in net income. Prior to the changes, the farmer would have received $64,687.

- **Existing programs are likely insufficient to help farmers during a crisis because of low and decreasing participation, low coverage, and low payments.** Market-related crises (such as those due to high input prices, low selling prices and a high Canadian dollar) cause the most serious farm losses, but three-quarters of Ontario farmers do not have protection under AgriStability (the primary program to address market-related losses). Because support provided by existing programs is not sufficient, the Ministry would need to provide additional funding in times of crisis. However, the Ministry's existing plans are inadequate to provide support to farmers during such crises because they are not designed to deal with long-term or market-related crises and do not outline how support will be provided to help farmers recover from losses.

We also found that Agricorp's systems and processes need to be improved to ensure that its delivery of farm-support programs is efficient, economical and in compliance with relevant agreements and policies. For example:

- **Incorrect and misleading information from some farmers has resulted in inaccurate payments.** Agricorp payments are based on information reported by farmers themselves, but farmers are not required to provide documentation to support income, expense, and other financial information they report. Agricorp generally does not validate the information from farmers for Production Insurance and the Ontario Risk Management Program; nor are farm inspections required for AgriStability and the Ontario Risk Management Program. In 31% of the audits conducted in the last five years, Agricorp's program audit group identified $5.6 million in over- and underpayments to farmers resulting from incorrect or false information provided to Agricorp.
- **Agricorp's aging IT systems are costly and susceptible to errors.** Agricorp uses over 30 IT systems to administer programs. One of its four main systems is 25 years old while another is over 10 years old. In the last five years, there have been 31 system-related errors that resulted in farmers either receiving incorrect information about their program participation, or incorrect payments totalling over $2.7 million. IT maintenance costs currently represent nearly one-third of Agricorp's annual expenditures, up from 20% in 2007. Although Agricorp is currently working to renew its IT infrastructure, it has not yet determined the cost and time required to complete this renewal.
- **Agricorp's board did not receive documented briefings from management on the results of program audits.** Agricorp's operations are governed by a board of directors accountable to the Minister. There was no documented evidence that Agricorp's board received information on instances of farmers being found to provide false or misleading information to Agricorp as well as other findings of Agricorp's program-audit group.

From 2013 to 2017, the Ministry spent $1.06 billion on farm-support programs, and has either budgeted or committed another $275 million until 2018. However, we found that, while the Ministry and Agricorp have established a number of performance measures for the various farm-support programs, neither could demonstrate whether the entire suite of programs were helping Ontario farmers become profitable, sustainable, competitive and innovative. In particular:

- **There is little incentive for farmers to be innovative.** Funding for strategic initiatives that encourage innovation (such as research and development activities to improve productivity, develop or improve farm practices,

or increase efficiencies) represents 15% of total farm-support programs. Further, as a result of limited annual funding for strategic initiatives, some farmers did not receive funding for projects that were rated by the Ministry as superior to others that received funding in other years, when there were fewer applications. The Organization for Economic Co-operation and Development has noted that this strategy of focusing support on business-risk-management programs does not encourage farmers to develop proactive risk-management approaches, which would contribute to achieving ministry goals.

- **Performance measures are not tied to program goals.** Performance measures focus mainly on outputs, such as number of participants and amount of payments, rather than on program goals. Although the programs are intended to work together, they are in fact evaluated independently of one another. In 2016, the Ministry began analyzing the impact on farmers of support programs, but the analysis is incomplete and we also found conflicting evidence, which indicates that further work is needed.

This report contains 14 recommendations with 19 action items.

Overall Conclusion

Our audit found that the Ministry had processes in place to design farm-support programs in compliance with relevant legislation, regulations, agreements and policies. However, the programs are not fully effective in ensuring support for farmers to manage their risks. Although Production Insurance appears to provide timely and sufficient support to help crop farmers manage production risks, we found that the design of the other programs limit the ability of the entire suite to provide appropriate support to farmers. Specifically:

- The Ontario Risk Management Program pays farmers with little regard to individual farmers' needs. We found that some farmers received payments even in profitable years because payments are based on industry-average production costs and not on the farmers' own circumstances.
- AgriStability's ability to provide needed support is limited by low farmer participation. We found that farmers do not benefit equally from the program as the design of the program tends to favour certain types of farming operations. Farmers have also criticized delays in receiving payments as well as recent changes, which have resulted in lower payments.

Support provided through the existing business-risk-management programs are likely insufficient to help farmers during a crisis because of low participation and low payments. Because of this, the Ministry would need to provide additional funding in periods of crisis. However, the Ministry's contingency plan is inadequate to provide such support.

Similarly, we found that Agricorp systems and processes needed to improve to ensure that the delivery of farm-support programs is efficient, economical and in compliance with relevant agreements and policies. Overpayments occur due to incorrect and misleading information from farmers, which Agricorp often does not verify. Agricorp's aging information systems are costly to maintain, and weaknesses have resulted in errors that led to farmers receiving incorrect information or payments.

We also found that neither the Ministry nor Agricorp had effective processes to evaluate and publicly report on the strategic and operational effectiveness of farm-support programs. Neither the Ministry nor Agricorp can demonstrate how the programs have achieved the objective of fostering a profitable, sustainable, competitive and innovative agricultural industry.

MINISTRY AND AGRICORP OVERALL RESPONSE

The Ministry and Agricorp appreciate the Auditor General's observations and recommendations, and agree that there are opportunities for improvement. The Ministry and Agricorp have initiated work to address the Auditor General's recommendations, including discussions with Federal-Provincial-Territorial (FPT) colleagues.

Agriculture is a shared FPT responsibility. As such, most business risk management (BRM) programs are negotiated among 14 governments with different agricultural conditions. Any changes to the objectives and design of programs require the agreement of the federal government and the majority of provinces and territories. Similarly, 25% of Ontario farm production is subject to the national supply management system, a key business risk management system.

This summer, FPT ministers agreed to conduct a comprehensive review of the national BRM suite. This review is being led by deputy ministers reporting directly to FPT ministers. It was driven by recognition among governments, and as recognized by the Auditor General, that some BRM programs were not sufficiently timely and predictable. The Ministry will conduct a concurrent evaluation of its Ontario Risk Management Program to ensure that it and the national suite work in harmony and respond to the audit's findings. Within the context of these reviews, in addition to existing program mechanisms, the Ministry will work with its partners to document a crisis-response plan and implement opportunities to better measure and analyze the collective impact of farm-support programs.

Farm support programs are critical to fostering the economic development of Ontario's agricultural sector. While farm incomes are at or near record levels, and primary level GDP and agri-food exports are growing, access to a suite of effective BRM programs is intended to provide producers confidence that the viability of their farm businesses will not be undermined by risks beyond their control. That confidence encourages Ontario farmers to innovate and invest in their businesses. In addition, Ministry strategic investment programming, targeted at supporting high-potential business improvements, stimulates farm businesses to be productive, to innovate, to build resilience and to manage risks.

2.0 Background

2.1 Overview of Farming in Ontario

Ontario's 49,600 farms cover 12.3 million acres and account for one-quarter of all farms in Canada. In 2016, the province's agricultural sector contributed $4.4 billion to the Ontario economy and employed almost 78,000 people.

There are two broad categories of agricultural products or commodities: crops (including fruits, vegetables and grains), and livestock (including cattle, hogs, and poultry). The 2016 Statistics Canada Census on Agriculture reported that Ontario has over 29,300 crop farms and more than 20,200 livestock farms. **Figure 1** shows the breakdown of farms in Ontario by the type of commodity they produce.

Grains and oilseed farms account for the largest number of farms—one-third of the provincial total—and Ontario is Canada's leading producer of soybeans and corn.

As shown in **Figure 2**, two-thirds of Ontario farms are located in the southern and western parts of the province. Crop farms are located mainly in southern Ontario, with 40% of fruit farms in the Niagara area and 25% of vegetable farms in Haldimand-Norfolk and other counties on Lake Erie. Livestock farms are located mostly in western Ontario, with 35% of hog operations in the Huron-Perth area and 20% of cattle operations in the Bruce-Grey area.

Figure 1: Historical Overview of Farming in Ontario, 2006–2016

Source of data: *Statistics Canada Census of Agriculture 2006, 2011 and 2016*

	2006	2011	2016	% Change (2006–2016)
# of farms	57,211	51,950	49,600	**(13)**
# of farm operators[1]	82,405	74,840	70,470	**(14)**
Total Area of Farms (millions of acres)	**13.3**	**12.7**	**12.3**	**(8)**
# of Farms by Classification[2]	**2006**	**2011**	**2016**	**% of Total (2016)**
Crop Production				
Grains and oilseed[3]	13,056	15,818	16,876	**34**
Fruit and vegetable	3,828	3,258	3,422	**7**
Hay	5,917	5,600	4,681	**9**
Greenhouse, nursery and floriculture	2,822	2,372	2,050	**4**
Other crops[4]	2,739	2,495	2,302	**5**
Subtotal – Crop Production	**28,362**	**29,543**	**29,331**	**59**
Animal Farming				
Beef cattle	11,052	7,105	6,786	**14**
Dairy cattle[5]	4,937	4,036	3,439	**7**
Poultry and egg production[5]	1,700	1,619	1,816	**4**
Hogs	2,222	1,235	1,229	**2**
Sheep and goat	1,365	1,446	1,097	**2**
Other animal farming[6]	7,573	6,966	5,902	**12**
Subtotal – Animal Farming	**28,849**	**22,407**	**20,269**	**41**

1. Farm operators are those persons responsible for management decisions in operating a farm. They can be owners, tenants or hired managers.
2. Farms are classified according to the predominant type of production. Farm classifications are based on the 2007 North American Industrial Classification System (NAICS).
3. Grains and oilseed include soybeans, other oilseed, wheat, corn and other grains.
4. Includes tobacco and maple syrup.
5. Dairy, and poultry and egg production are governed by the supply-management system, under which production volumes and commodity prices are strictly controlled to meet consumer demand, and to enable farmers to cover their costs of production and earn a fair return.
6. Includes apiculture (beekeeping), horse and other equine production, fur-bearing animals, and rabbit production.

In 2016, Ontario farms produced $13.0 billion worth of agricultural commodities. About 65% of this was sold to local food and beverage processors. The remaining 35% was either consumed directly by Ontarians or exported to other provinces and countries (mainly the United States).

As illustrated in **Figure 3**, half of Ontario farms earn less than $50,000 annually from the sale of their agricultural products. These farms are sustained primarily by their off-farm income, for example from non-farm wages, salaries, pensions and investments. According to the Ministry's analysis of income information for a sample of Ontario farms, off-farm income accounts for over 80% of the total family income on average. However, as shown in **Figure 3**, the percentage of total family income that is earned from off-farm activities decreases as farm operations get bigger.

2.2 Farm-Support Programs

Farm-support programs are designed to address the two broad areas of risk faced by farmers:

- production risks, including pests, disease and bad weather, that affect the quantity and/or quality of the commodities they produce; and

Figure 2: Breakdown of Ontario Farms by Location and Commodity

Source of data: Statistics Canada Census of Agriculture 2016

	% of Farms That Produce the Commodity Located in Each Region of Ontario					Total # of Farms That Produce the Commodity
Commodity Produced	**Southern**	**Western**	**Central**	**Eastern**	**Northern**	
Grains and oilseed	53	28	8	10	1	**16,876**
Fruits and vegetables	49	19	17	11	4	**3,422**
Hay	19	10	8	4	2	**4,681**
Greenhouse, nursery and floriculture	44	22	19	10	5	**2,050**
Beef cattle	12	45	19	17	6	**6,786**
Dairy cattle	20	42	10	24	3	**3,439**
Hogs	37	58	2	3	1	**1,229**
Poultry and eggs	39	41	11	8	2	**1,816**
Sheep and goats	21	41	19	14	5	**1,097**
Other*	20	31	22	20	8	**8,204**
Total % of All Farms	**34**	**33**	**14**	**15**	**4**	**49,600**

* Other includes apiculture (beekeeping), horse and other equine production, fur-bearing animals, rabbits, tobacco, maple syrup and other miscellaneous animal and crop production.

- price risks, such as fluctuations in the costs of goods and services they have to buy to produce commodities, in the selling prices for those commodities, and in exchange rates.

Governments across the world use various types of farm-support programs to help manage these risks. The Organization for Economic Co-operation and Development (OECD) measures farm-support level in various countries as part of its monitoring and evaluation of agricultural policies. In 2017, the OECD's evaluation of farm-support programs in 22 countries found that the average spending on farm-support was 0.94% of gross domestic product. Canada's spending was below this average at 0.42% of its gross domestic product. The Ministry estimated that Ontario's spending on farm-support programs is approximately 0.24% of the provincial gross domestic product.

2.2.1 Responsibility for Farm-Support Programs

The federal government—through Agriculture and Agri-Food Canada—and the provincial and territorial governments are responsible for developing agricultural policy frameworks and agreements to deliver programs that help farmers manage risks. See **Appendix 1** for a list of selected key agricultural stakeholders and organizations, including Agriculture and Agri-Food Canada.

In 2016/17, the federal government contributed $197 million, up $5 million from 2015/16, to Ontario farm-support programs, while the Province paid $265 million, up $4.5 million from the previous year. From 2012/13 to 2016/17, the two governments spent a total of $2.3 billion on farm-support programs in Ontario.

In Ontario, the Ministry of Agriculture, Food and Rural Affairs (Ministry) is responsible for policy decisions related to farm-support programs. The Ministry is also responsible for overseeing the delivery of these programs.

Figure 3: Breakdown of Ontario Farms by Farm Income

Prepared by the Office of the Auditor General of Ontario

Gross Farm Receipts[1]	# of Farms[2]	% of Ontario Farms	Average % of Total Farm Income From Off-Farm Activities[3]
Less than $10,000	9,536	19	No data[4]
$10,000–$24,999	8,376	17	107[5]
$25,000–$49,999	6,755	14	100
$50,000–$99,999	6,263	13	95
$100,000–$249,999	7,022	14	80
$250,000–$499,999	4,707	10	53
$500,000–$999,999	3,689	7	35
$1,000,000 and over	3,252	6	30
Total	**49,600**	**100**	

1. Represents receipts from all agricultural products sold.
2. Information is based on Statistics Canada's 2016 Census of Agriculture.
3. Information is based on a Ministry analysis using data on a sample of 25,900 farms from Agriculture and Agri-Food Canada's database, and represents the average in the last five years (2013 to 2017).
4. Ministry analysis did not include information for this range.
5. Indicates that farm operation was in a deficit position before income from off-farm activities.

Agricorp

The *Agricorp Act, 1996* established Agricorp as a Crown agency and the delivery agent for Ontario's support programs to farmers. Agricorp is governed by a board of directors accountable to the Minister for oversight and governance of the agency.

As of January 31, 2017, Agricorp had 319 full-time equivalents, about 40% of whom were directly involved in delivering farm-support programs. They collect and review farmer information to determine eligibility, review payment applications, and issue payments. Approximately 50 of these are field staff, who are employed on a seasonal or contract basis to verify farmer-reported yield and crop-damage claims.

Approximately 25% of Agricorp's full-time equivalents oversee the various information systems that the agency uses to deliver farm-support programs. The remainder perform administrative functions in financial, legal and human resource areas.

2.2.2 *Growing Forward 2 Agricultural Policy Framework* for 2013-18

Developed by the federal, provincial, and territorial governments, the *Growing Forward 2 Agricultural Policy Framework* for 2013-18 (Framework) governs most of the farm-support programs across Canada. The federal government and the Ministry generally share the costs of delivering programs in the Framework on a 60:40 basis.

The objective of the Framework is to achieve a profitable, sustainable, competitive and innovative agriculture sector. The Framework provides farm support through two funding streams:

- **business-risk-management programs** that aim to mitigate farm income losses stemming from low commodity prices, reduced production, or natural disasters; and
- **cost-sharing programs for strategic initiatives** that aim to help farmers implement best practices in farm management.

The following sections describe the funding streams and the programs under each.

2.3 Business-Risk-Management Programs

Business-risk-management programs provide financial assistance to farmers to help mitigate drops in income due to factors beyond their control, such as harsh weather, rising costs, or low market prices for commodities. The programs are intended to work as a suite. Farmers choose to participate in programs that best suit their individual operations and circumstances.

Figure 4 summarizes the four business-risk-management programs in Ontario. Three of the four—Production Insurance, AgriStability and AgriInvest—are Canada-wide programs governed by the Framework. The federal government and the Ministry share the costs of these programs on a 60:40 basis. In Ontario, Agricorp delivers Production Insurance and AgriStability while Agriculture Canada delivers AgriInvest.

The $100-million-a-year Ontario Risk Management Program is an Ontario-only program, funded solely by the Ministry and delivered by Agricorp.

Figure 5 provides a summary of how the various business-risk-management programs in Ontario work.

Figure 6 provides a breakdown by amount of the 2015 payments under the various business-risk-management programs. Depending on the program, payments may be based on the calendar year, the farmers' planting season, or the tax year. Because of timing differences in the calculation of payments for the various programs, 2015 is the most recent year for which complete payment information is available for all programs.

Figure 4: Business Risk Management Programs in Ontario

Prepared by the Office of the Auditor General of Ontario

Program	How the Program Works	Eligible Farming Operations	# of Participants[1] in 2015	# of Payment Recipients[2] in 2015	Total Payments in 2015[3] ($ million)
Canada-Wide Programs					
Production Insurance	Pays farmers for crop losses due to adverse weather, wildlife, pest infestation or disease.	Crops, bees	14,246	5,726	**89.4**
AgriStability	Pays farmers for large drops in their farm income compared to their average income.	All	14,119	1,677	**56.4**
AgriInvest	Federal government and Ministry match farmers' deposits (up to $15,000) in special accounts.[4] Farmers may withdraw part or all of the money in the account.	All	21,677	10,764	**106.9**[5]
Ontario-Only Program					
Ontario Risk Management Program	Pays farmers when income from selling their commodity is less than industry-average cost to produce the commodity	Livestock, grains and oilseeds	6,681	6,427	**96.5**[6]
	Ministry matches farmers' deposits (up to a max), all or a portion of which farmers may withdraw	Fruit and vegetables	2,085	1,757	**51.5**[5]

1. Participants are those who paid fees or premiums, or made deposits. Farmers may participate in more than one program.
2. Recipients are those who received program payments.
3. Depending on the program, payments may be based on farmers' planting season (Production Insurance), tax year (AgriStability), or the calendar year (all other programs). Because of timing differences in the calculation of payments for the various programs, 2015 is the most current year for which complete payment information is available for all programs.
4. These special accounts are savings accounts held at participating financial institutions, and are managed by farmers.
5. Represents total amount withdrawn by farmers, including farmers' own deposits.
6. Includes payments made from the Farmers' Risk Management Premium Fund, in addition to funding from the Ministry.

Figure 5: How Business-Risk-Management Programs Work

Prepared by the Office of the Auditor General of Ontario

	Fees Paid by Farmers to Participate[1]	Coverage Level	Payment Trigger	Timing of Program Payments
Needs-Based Programs that Provide Payments Only when a Loss is Incurred				
Production Insurance	40% of actuarial-based premium based on chosen coverage level and average yield.	Farmers can choose coverage level between 65% to 90% of production depending on the type of commodity.	Farmer's reported actual harvested yield is less than their insured yield.	Payments are generally received in the same year as the loss. Reporting deadlines vary between September and December based on the crop.
AgriStability	0.315% of farmer's historical net income +$55 admin fee.	70% of drop in net income (compared to average) greater than 30%.	Farmer's current net income is lower by at least 30% compared to the lower of their average net income or average expenses.	Payments are generally received in the year following the loss.[2]
Ontario Risk Management Program–Livestock and Grains and Oilseeds	Non-actuarial based premiums based on chosen coverage level, average yield, and acreage or livestock enrolled.	Farmers can select 80%, 90%, 100% coverage of the industry-average cost to produce crop or livestock.	Market prices are lower than industry-average cost of production.	Payments are generally received in the same year as the loss. Livestock: September, December, and March. Grains and oilseed: November and June.
Entitlement Programs that Provide Payment Regardless of Loss				
Ontario Risk Management Program–Fruit and Vegetables	No fees	Ministry matches 100% of deposits, up to a maximum of between 1.0%–2.5% of allowable net sales.	The farmer withdraws funds.	Farmer can withdraw at any time.
AgriInvest	No fees	Government matches 100% of farmer's deposits up to a maximum of 1% the farmer's allowable net sales (to a maximum value of $15,000/year).	The farmer withdraws funds.	Farmer can withdraw at any time.

1. Fees are paid every year that a farmer chooses to participate in the program.
2. Payments under the Ontario Risk Management Program are considered an advance towards the Ministry's 40% share of the farmer's AgriStability payments.

Figure 6: Breakdown of 2015 Payments under Business-Risk-Management Programs
Prepared by the Office of the Auditor General of Ontario

	Production Insurance		AgriStability		AgriInvest		Ontario Risk Management Program[1]	
Payment Amount ($)	# of Recipients	Total Paid ($ 000)	# of Recipients	Total Paid ($ 000)	# of Recipients	Total Paid ($ 000)	# of Recipients	Total Paid ($ 000)
0	8,520	0	12,442	0	10,913	0	550	0
1–10,000	3,987	13,955	1,052	3,407	8,395	21,579	5,593	17,389
10,001–50,000	1,408	29,807	448	10,676	2,020	44,927	1,765	39,113
50,001–100,000	207	14,515	82	5,477	259	17,970	293	21,090
100,001–500,000	114	19,757	80	17,074	84	14,204	274	49,841
500,001–1,000,000	4	2,607	8	6,193	3	2,018	17	12,616
Over 1,000,000	6	8,734	7	13,595	3	6,235	6	8,013
Total[2]	**5,726**	**89,375**	**1,677**	**56,422**	**10,764**	**106,934**	**7,948[3]**	**148,062**

1. Includes recipients and payments under the various plans for livestock, grains and oilseed, and fruit and vegetable farmers.
2. Total does not include farmers who did not receive payments.
3. Total number of recipients does not equal total recipients in **Figure 4** because farmers may participate in more than one plan.

2.3.1 Production Insurance

The Production Insurance program was established in 1966 to compensate farmers for crop losses or low yields due to "perils" such as adverse weather, damage by wildlife, pest infestation, and disease. **Figure 7** illustrates Production Insurance claims by type of peril in 2015.

Production Insurance covers about 100 types of commercial crops. It is jointly funded by the federal and Ontario agriculture ministries, and delivered by Agricorp.

Participating in Production Insurance

Production Insurance compensates farmers for any difference between insured production-level guarantees and their actual production. Every year before planting season, farmers can sign up for, renew, or make changes to their insurance coverage. Production Insurance guarantees payment for a production level based on a farm's historical reported yield, and the level of coverage they choose, which can be between 65% and 90%, depending on the crop.

Agricorp calculates the total premium based on the farmer's history of past claims, the type of crop insured, the number of acres to be planted, and the farmer's chosen coverage level. Generally, farmers pay 40% of the total premium, the federal government 36%, and the Ministry 24%. Premiums are actuarially sound, which means that the total premiums paid by farmers and the governments are calculated to ensure that premiums are sufficient to cover claims over time. All premiums are deposited into the Production Insurance Fund, which is managed by Agricorp.

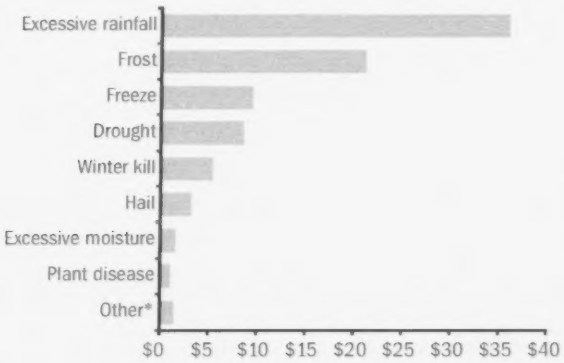
Production Insurance Fund (Fund)

As shown in **Figure 8**, annual premiums paid by farmers have not been sufficient to cover the annual payments made to them. However, government contributions to premiums, plus investment income, have exceeded what was needed to bridge the gap. As a result, the Fund balance has increased by $192 million in the last five years, and stood at about $866 million as of March 31, 2017.

Amounts remaining in the Fund after payouts to farmers are kept in a reserve to cover claims that might, in a particular year, exceed premiums

Figure 7: Production Insurance Claims by Type of Peril, 2015 ($ million)

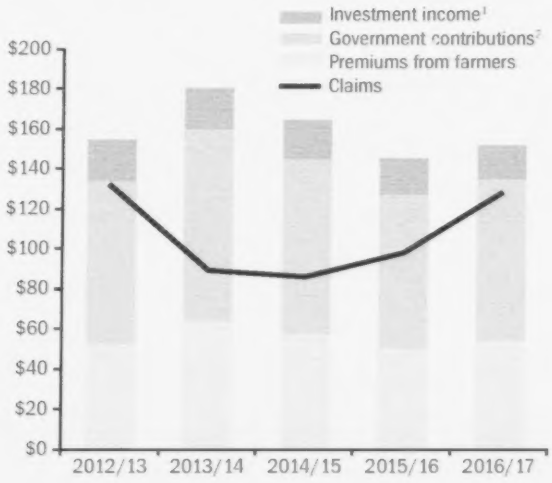
Source of data: 2015/16 Agricorp Annual Report



* "Other" includes flood, pest infestation and wildlife.

Figure 8: Comparison of Production Insurance Premiums and Claims, 2012/13–2016/17 ($ million)

Source of data: Agricorp



1. Income earned from marketable investments
2. Contributions made by the federal and Ontario governments

paid. Agricorp also purchases reinsurance from private carriers to limit Ministry liability in the event of unexpectedly high claims. Agricorp spent $53.1 million on reinsurance from 2012/13 to 2016/17, but did not file claims on these policies, because total claims from farmers in those years did not meet the minimum thresholds in its reinsurance agreements. The increasing Fund balance means Agricorp has a greater ability to absorb high claims, so reinsurance costs have decreased to $3.6 million in 2016/17 from $19.5 million in 2012/13 as Agricorp purchased less reinsurance.

Applying for Production Insurance Payment

Farmers receive payments if any of the insured perils cause their actual yield to fall below their guaranteed production level.

Before they can collect, farmers must report crop damage to Agricorp, whose adjusters inspect the damage—if deemed necessary—before farmers begin reseeding or harvesting.

Adjusters may determine that a farm inspection is needed to verify the damage when, for example, a claim seems "unusually large" for the area or year, when the cause of damage sounds unusual (a new disease, for example), or if the farmer has a history of frequent claims. Adjusters may also conduct inspections to verify the number of acres planted or determine how the farmer measured the yield.

Review and Appeal Process

Farmers who disagree with Agricorp decisions can request a review by Agricorp's Internal Review Committee, composed of at least three Agricorp staff selected for their understanding of the issues under review. If the farmer disagrees with the Committee's decision, they can file an appeal with the Agriculture, Food and Rural Affairs Appeal Tribunal. See **Appendix 1** for information about the Tribunal.

Appendix 2 summarizes the number of reviews and appeals related to Production Insurance in the last five years.

2.3.2 AgriStability

AgriStability was introduced in 2008. Unlike Production Insurance, which only protects against crop loss, AgriStability is intended to protect the entire farm's income against large losses due to

production loss, rising costs of required goods and service, or low selling prices for commodities.

Farmers must pay an annual fee to participate in AgriStability that includes a $55 administrative charge and the farmer's "contribution amount," equal to 0.315% of the prior year's "average net income" (the difference between eligible income and eligible expenses). "Average net income" is defined as the farm's net income in three of the preceding five years, after dropping the highest and lowest values.

AgriStability is jointly funded by the federal government and the Ministry, and delivered by Agricorp.

Applying for AgriStability Payments

In order to be eligible for payment, farmers must file their income-tax return and submit a claim form to Agricorp. The form provides information that helps Agricorp determine how much, if anything, a farmer will receive. The determination includes whether the farmer's own actions—for example, downsizing—contributed to the lower income.

An AgriStability payment is triggered when the farm's current-year net income is lower than the lesser of its "average net income" or average expenses by more than 30%. Agricorp primarily uses a farmer's income-tax information to calculate AgriStability payments.

If a farm's current-year net income falls below the payment trigger, AgriStability covers 70% of the drop in net income. **Figure 9** illustrates the calculation for AgriStability payments.

Review and Appeal Process for Farmers

Farmers who want to dispute Agricorp's decision about their AgriStability eligibility or application must submit an amendment request to Agricorp explaining why they disagree. If Agricorp denies the amendment request, farmers may request a review by the Business Risk Management Review Committee. See **Appendix 1** for information about the Committee. The Committee's recommendations are not binding; Agricorp can accept part or all of them, or reject them outright.

Appendix 2 summarizes the number of reviews and appeals related to AgriStability in the last five years.

2.3.3 AgriInvest

AgriInvest, introduced in 2008, is a program in which the federal and Ontario agriculture ministries match farmers' contributions to individual savings accounts. The program is intended to help farmers manage small decreases in income. Although AgriInvest is funded jointly by the federal and Ontario ministries, it is delivered by Agriculture and Agri-Food Canada on behalf of all the provinces and territories, except Quebec.

Each year, farmers can deposit up to the amount of their allowable net sales into a bank account that they manage themselves. The federal government and the Ministry match the first 1% of the farmers' contribution, to a maximum of $15,000 per year.

Farmers can withdraw some or all of the funds to offset losses, help with cash-flow needs, or support investments to help them manage business risks. The account balance—including contributions from the farmer, the federal government and the Ministry, plus interest earned—is limited to 400% of a farmer's average allowable net sales for the current year plus the two preceding ones.

2.3.4 Ontario Risk Management Program

The Ontario Risk Management Program (Program) is intended to help mitigate losses caused by increased costs and/or lower market prices for commodities. It was first introduced in 2007 for grains and oilseed, and was expanded in 2011 to livestock and to fruits and vegetables.

The Program is funded solely by the Ministry and delivered by Agricorp. Since 2013, the Ministry has capped total annual funding for the Program at $100 million, including administration costs as well as payments to farmers. For farmers who are

Figure 9: Illustration of AgriStability Payment Calculation

Prepared by the Office of the Auditor General of Ontario

The illustration below uses an example of a farmer applying for AgriStability for the 2016 year, during which the farm had a net income of $60,000 and eligible expenses of $55,000.

Part 1 – Calculating the "average net income"[1]

1. Eliminate the highest and the lowest net income in the five preceding years.						Current-Year Net Income (Not Used Yet)
2011	~~2012~~	~~2013~~	2014	2015	2016	
$107,000	~~$116,000~~	~~$98,000~~	$112,000	$108,000	$60,000	

2. Calculate the average of the remaining three years.

			2011		2014		2015			
Average net income	=	(	$107,000	+	$112,000	+	$108,000	)	÷ 3	= **$109,000**

Part 2 – Calculating the "average eligible expenses"

1. Eliminate the eligible expenses in the same years that were eliminated in Part 1 above.						Current-Year Eligible Expenses (Not Used Yet)
2011	~~2012~~	~~2013~~	2014	2015	2016	
$99,000	~~$95,000~~	~~$94,000~~	$102,000	$104,000	$55,000	

2. Calculate the average of the remaining three years.

			2011		2014		2015			
Average eligible expenses	=	(	$99,000	+	$102,000	+	$104,000	)	÷ 3	= **$101,667**

Part 3 – Calculating the "payment trigger"

1. Determine the lower of the two averages calculated in Parts 1 and 2 above.[2]

Average net income	$109,000
Average eligible expenses	**$101,667**

2. The payment trigger is 70% of the lower of the two averages.

Payment trigger	=	70% of $101,667	=	**$71,167**

Part 4 – Calculating the AgriStability payment

1. Determine whether farmer will trigger payment calculation.

Is current-year net income below the payment trigger calculated in Part 3 above?

Current-year net income ($60,000) is below the payment trigger ($71,167); therefore, farmer will receive an AgriStability payment.

2. Calculate the AgriStability payment.

AgriStability payment is 70% of (payment trigger less current-year net income)

Payment	=	$71,167	–	$60,000	=	$11,167	× 70%	= **$7,817**

1. AgriStability guidelines outline eligible income and expenses used to calculate average net income. Average net income may be adjusted for changes in inventory and size of operation.

2. The first step in Part 3, where the lower of average net income and average eligible expenses is used to calculate the payment trigger, came into effect in 2013. Prior to 2013, the payment trigger was calculated solely based on average net income, regardless of the eligible expenses.

also enrolled in AgriStability, payments under the Program are considered an advance towards the Ministry's 40% share of the AgriStability payment.

The Program works differently for the various farming sectors, as follows:

Risk Management Plan—Grains and Oilseed

Grains and oilseed farmers pay premiums based on their average yield, the number of acres to be planted, and their chosen coverage level. Farmers must also enrol in Production Insurance to participate in this program.

Premiums paid by farmers are deposited into the Farmers' Risk Management Premium Fund, which is managed by the Grain Farmers of Ontario. See **Appendix 1** for a description of the role of the Grain Farmers of Ontario.

Farmers receive payments if an insured crop's market price falls below the industry-average cost of producing the crop. Payments are initially made from the provincial funding allocation for each commodity type until the full amount is spent. Once Ministry funding is exhausted, payments are drawn from the Farmers' Premium Fund. As of March 31, 2017, the Fund for the grain and oilseed sector had a balance of $15 million.

Risk Management Plan—Livestock

The plan for the livestock sector—specifically cattle, hogs, sheep and veal—also works like insurance, in that farmers pay premiums based on the number of animals insured and the coverage level chosen, which can be 80%, 90% or 100%.

Premiums paid by farmers are deposited into the Farmers' Risk Management Premium Fund, which is managed by each commodity group—Beef Farmers of Ontario, Ontario Pork, Ontario Sheep, and Veal Farmers of Ontario. See **Appendix 1** for a description of the role of the various commodity groups.

Farmers receive payments if market prices for their livestock fall below the industry-average cost of raising the animals. Payments are initially made from the provincial funding allocation for each commodity type until the full amount is spent. Once Ministry funding is exhausted, payments are drawn from the Farmers' Premium Fund. As of March 31, 2017, the Fund for the livestock sector had a balance of $18.3 million.

Risk Management Plan—Fruits and Vegetables

The plan for the fruit-and-vegetable sector works differently from the others, and more like AgriInvest, in that farmers make contributions, matched by the Ministry, to individual accounts.

Farmers can make an annual contribution to an Agricorp-managed account up to a maximum based on a percentage of their eligible net sales. Because of the annual funding cap, the portion that is matched by the Ministry depends on the number of farmers participating and the amount of contributions in any given year.

To receive payments, farmers must submit a withdrawal request to Agricorp for all or a portion of the balance in their individual account.

Review and Appeal Process

Farmers who disagree with Agricorp decisions in the three plans above must submit an amendment request to Agricorp explaining why they disagree. If Agricorp denies the amendment request, farmers may ask for a review by the Business Risk Management Review Committee. See **Appendix 1** for information about the Committee. The Committee's recommendations are not binding; Agricorp can accept part or all of the recommendations, or reject them outright.

Appendix 2 summarizes the number of reviews and appeals related to the Ontario Risk Management Program in the last five years.

2.3.5 One-Time Farm-Support Programs

The Ministry and/or the federal government may occasionally provide one-time aid to, for example, help farmers recover from catastrophic weather

events and/or economic crises. Such programs may be jointly funded by the two governments, or solely funded by Ontario. **Appendix 3** lists the various one-time farm-support programs delivered over the last 10 years to farmers in this province.

2.4 Cost-Sharing Program for Strategic Initiatives

The Strategic Initiatives program is intended to encourage innovation and increase competitiveness in the agricultural sector by funding eligible recipients to implement best farm-management practices. Farmers, including those who also process their own commodities (for example, a strawberry farm that also produces jam) can apply for funding under six focus areas as described in **Figure 10**.

The Ministry administers the cost-sharing program for food processors, and has contracted with the Ontario Soil and Crop Improvement Association (Association) to deliver the Strategic Initiatives program for farmers. See **Appendix 1** for information about the Association.

Merit-Based Application-and-Approval Process

To apply for funding under Strategic Initiatives, farmers and food processors must submit a completed application form and any documentation required for the particular focus area. The application must describe the proposed project and expected outcomes, the significant milestones to completion, the resources to be used, and the expected costs to complete the project.

The Ministry and the Association evaluate applications using merit-based criteria. This means that only the "very best" projects—that is, those with the highest scores—are approved for funding. Eligible projects that do not meet the minimum approval score will not be funded. Because funding is capped every year, the minimum approval score varies with the number of applicants.

Farmers and food processors cannot appeal decisions by the Ministry and the Association regarding their funding applications.

3.0 Audit Objective and Scope

Our audit objective was to assess whether the Ministry of Agriculture, Food and Rural Affairs (Ministry) and Agricorp have effective systems and processes in place to:

- design and deliver farm-support programs efficiently and economically in compliance with relevant legislation, regulations, agreements and policies, in such a way that the programs support farmers in the management of their risks; and
- evaluate and publicly report on the strategic and operational effectiveness of farm-support programs.

Before starting our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 4**). These criteria were established based on a review of applicable legislation, directives, policies and procedures, internal and external studies, and best practices. Senior management at the Ministry and Agricorp reviewed and agreed with the suitability of our audit objective and related criteria.

Our audit focused on the following farm-support programs that provide direct financial assistance to farmers: AgriStability, Production Insurance, the Ontario Risk Management Program, AgriInvest, and the Cost-Share Program for Strategic Initiatives. We did not audit the supply-management system governing dairy, poultry and egg production across Canada.

We conducted the audit between January 9, 2017, and July 7, 2017. We obtained written representation from the Ministry and Agricorp that, effective November 15, 2017, they had provided us with all the information they were aware of that could significantly affect the findings or conclusion of this report.

We did our work primarily at the Ministry and Agricorp head offices in Guelph. In conducting our work, we reviewed applicable legislation,

Figure 10: Focus Areas Eligible for Funding under Strategic Initiatives Program

Prepared by the Office of the Auditor General of Ontario

Focus Areas	Nature of Projects	Examples of Projects	Maximum Funding per Project ($)*
Environment and climate-change adaptation	Help farmers reduce potentially harmful environmental effects by: • using water, energy, etc. more efficiently; and • proactively adapting to climate change and more frequent weather extremes	• Improvements to liquid-manure storage • Specialized and dedicated composting equipment	1,000–31,500
Business and leadership development	Help farmers better understand farm finances and production costs, and develop improved business and leadership skills to plan for succession, expansion or diversification, financial-risk management, human resources, or overall business management.	• Making business plans operational • Third-party help to develop plans for succession, expansion, human-resources, etc.	2,500–30,000
Market development	Help farmers understand and plan marketing approaches for new markets, meet industry standards or certification requirements, implement a marketing plan, and create new products or processes.	• Third-party help to identify market opportunities • One-time testing of products to meet established standards or market requirements	2,500–30,000
Animal and plant health	Enhance farmers' ability to prevent outbreaks of infectious animal or plant disease, and reduce the spread of disease and pests. Also assist with implementing national or industry standards for bio-security.	• Health/pest risk assessments • Development of bio-security, disease/pest response, and/or operational procedures • Development of an integrated pest-management plan	2,500–25,000
Labour and productivity enhancement	Increase farmers' understanding of and planning for labour productivity, improve equipment, technology, systems, policies and procedures. Projects aim to encourage improvements in personnel performance, automation, waste reduction and down time.	• Third-party help to develop plans focused on labour productivity objectives and strategies • Third-party help to increase farmers' understanding of labour productivity	2,500–30,000
Assurance systems	Help farmers improve food safety, traceability and animal welfare.	• Food-safety assessments and audits • Training and education • Equipment and facility modifications to support food-safety practices • Laboratory testing	1,500–100,000

* Maximum amount of funding varies depending on the type of project.

agreements, program guidelines, policies, relevant files and other information. We also interviewed Ministry and Agricorp staff. In addition, we met with representatives from the Ontario Soil and Crop Improvement Association, which is responsible for delivering cost-sharing programs for strategic initiatives.

We met with experts in agricultural economics, and with representatives from the Ontario Federation of Agriculture, Beef Farmers of Ontario,

Ontario Pork, Ontario Fruit and Vegetable Growers Association, and Grain Farmers of Ontario, to obtain their perspectives on the farm-support programs in Ontario. We also interviewed an agricultural economics and policy expert from the Organisation for Economic Co-operation and Development to gain an understanding of best practices in agricultural risk management programs.

At our request, the Ontario Federation of Agriculture included our survey on farmers' attitudes toward Ontario farm-support programs in a newsletter to its members, and 930 of them from various parts of the agriculture sector in the province responded. See **Appendix 5** for a summary of the survey results.

As well, we met with representatives of the federal Department of Agriculture and Agri-Food to understand the federal government's delivery of other farm-support programs and its opinion on the Ontario Risk Management Program.

We reviewed the relevant audit report issued by the province's Internal Audit Division in determining the scope and extent of our audit work.

4.0 Detailed Audit Observations

Ontario farms differ from each other in terms of the commodities they produce and in their financial situation, and therefore in their ability to withstand fluctuations in income. As shown in **Figure 3**, almost two-thirds of the 46,900 farms in Ontario earned less than $100,000 from the sale of their agricultural products.

The various business-risk-management programs are intended to work as a suite to provide farmers with choices of programs that best suit their individual operations. However, the House of Commons Standing Committee on Agriculture and Agri-Food stated in its March 2017 report on farm-support programs that some programs, such as Production Insurance and AgriInvest, have been more successful than others. Our audit found that flaws in the design of some programs limit the ability of the entire suite to provide appropriate support to help all farmers manage their risks. Our specific observations are described in **Sections 4.1** to **4.3**.

4.1 Ontario Risk Management Program Pays Farmers with Little Regard to Individual Need

The Ministry of Agriculture, Food and Rural Affairs (Ministry) spends $100 million annually on the Ontario Risk Management Program (Program), or about 40% of its total funding for farm-support programs from 2011 to 2015. The Program was born out of extensive consultation between the Ministry and the various commodity groups because of perceived gaps in the other Canada-wide business-risk-management programs.

According to the Ministry, farmers favour the Program because they receive payments quickly and they believe it helps them secure bank loans to finance operations. However, our review of program design and analysis of payments in the last five years indicate that the Program is not based on the actual needs of farmers.

4.1.1 Little Connection between Individual Farm Incomes and Payments

The Program is intended to help farmers reduce market-related fluctuations in their income—that is, to stabilize their income when proceeds from sales of their commodity are less than the average cost to produce the commodity. However, we found that there is little correlation between individual farmer incomes and payments from the Program.

Some Farmers Paid Even in Profitable Years

Farmers in the livestock and grains-and-oilseed sectors are paid based on the industry-average production cost, which does not necessarily reflect each farmer's actual cost to produce the commodity. Fruit-and-vegetable growers, on the other hand, may request payments for any reason.

To understand whether program payments were actually linked to the financial situation of individual farms, we analyzed the income and expense information of farmers who received payments from 2011 to 2015. We found that only half actually experienced either a drop in income from the previous year or a loss in the year they received payments, which averaged $11,000 each.

We also found that 30% of payment recipients from 2011 to 2015 (average payment: $7,200 each) actually reported higher income in the year they received the payment than in the previous year. These farmers reported median net income of $30,000, up to a maximum of $13.6 million on their income-tax filings to the Canada Revenue Agency. In other words, recipients received payments even though they did not incur any reduction in income, which is contrary to the stated intent of business-risk-management programs.

For example, 24% of the 4,900 payment recipients reported positive operating income in 2015 and also reported that their operating income increased by an average of $106,000 (44%), compared to 2014. **Figure 11** shows the top program recipients with the highest incomes in 2015 who also reported increases in income from 2014 to 2015. The Ministry advised us that providing support to already-profitable farms is an unintended consequence of the "industry-average" aspect of the Program—that is, the Program was not designed to improve profitability—and that it planned to review the Program's design.

The Ministry's own review of the Program in 2016 found that there was no correlation between the size or timing of program payments, and net income, because payments are based on industry averages rather than individual performance. In addition, internal Ministry documents corroborate the results of our analysis, acknowledging that program payments "are not a true reflection of actual need." Payments made with no correlation to a farmer's individual situation do not stabilize income as intended.

The Ministry advised us that, in order to provide payments more quickly, the Program was intentionally designed so as to not reflect individual farm performance. Under the current Program design, farmers are only required to report the amount and value of their commodity sales or yield. The Ministry then uses the industry-average market price

Figure 11: Ontario Risk Management Program Recipients with Highest Net Income in 2015

Prepared by the Office of the Auditor General of Ontario

Rank	2014 Net Income ($)	2015 Net Income ($)	2015 Ontario Risk Program Management Payment ($)
1	1,221,396	13,673,292	30,914
2	4,088,016	7,154,098	162
3	3,627	6,202,452	44,876
4	2,834,435	3,764,760	1,652
5	1,301,488	2,900,123	436,996
6	2,585,000	2,737,460	274,578
7	(31,692)	2,558,734	7,829
8	942,684	2,387,787	94,476
9	(308,253)	2,270,581	9,813
10	487,358	2,156,794	7,871
Average	**1,312,406**	**4,580,608**	**90,917**

* The list below represents those Program recipients with the highest 2015 net income who also reported an increase in their net income from 2014 to 2015.

to calculate the farmers' sales income. Program payments are then calculated as the difference between the farmers' income from sales, and the industry-average production cost. If payments were to be based on the farmers' actual production costs, farmers would have to provide information similar to what they report on their income-tax return. This would include, for example, costs associated with purchasing feed, animals, and seeds, as well as the costs of running the farm. The additional information would increase the time needed for farmers to submit the required information and for Agricorp staff to review applications, which would then delay the payments.

"Industry Average" Not Actually Representative of Industry

Industry-average production costs are actually calculated using production costs at only a small sample of farms—from as few as six to a maximum of 122 livestock farms, depending on the commodity.

For example, the 2015 industry-average production cost for a cow-calf cattle operation, which raises cattle to produce calves for sale, was based on a sample of six farms. In order to be included in this sample, a farm must earn over 80% of its sales from the particular commodity. Because most farms earn income from multiple commodities, the sample sizes are usually small.

Neither the Ministry nor Agricorp could tell us how many cattle farmers in Ontario have cow-calf operations. However, there were approximately 670 Program participants with cow-calf type operations in 2017. This means that the "industry average" was based on the production costs of less than 1% of cow-calf operators enrolled in the Program.

In 2015, the Reference Committee for the cattle sector also acknowledged the issue with the small sample sizes used to calculate the industry average. The Committee is made up of Ministry experts and industry representatives who meet quarterly to establish program components and identify issues that affect the delivery of the Program. At the time of our audit, the Ministry had not identified an alternative method to calculate an industry-average cost of production that actually reflects the average production cost for all farms that produce the commodity.

The Ministry advised us that it is challenging to calculate a representative "industry average" because of the vast differences among farming operations in the province. This further calls into question the current method of using industry average costs to calculate Program payments. During our audit, the Ministry informed the various commodity groups that the Program would be re-designed to shift away from the industry-average method. Changes are expected to be implemented in 2019.

RECOMMENDATION 1

To ensure that Ontario Risk Management Program payments are appropriate for the individual needs of farmers, we recommend that the Ministry of Agriculture, Food and Rural Affairs improve the current method of using industry-average cost-of-production to calculate payments or analyze whether an alternative method would be more appropriate.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. The Ontario Risk Management Program (Program) was designed to address gaps in the national suite of business-risk-management (BRM) programs, including timeliness of program payments. The Federal-Provincial-Territorial (FPT) BRM review will bring options forward to the 2018 FPT agricultural Ministers' meeting to address shortcomings in the national suite. The Ministry will continue to champion a timely and comprehensive review. The concurrent evaluation of the Program will revisit the current method of calculating cost of production in a way that best complements the national suite and better targets needs.

4.1.2 Ontario Risk Management Program Benefits Large Farms

The design of the Ontario Risk Management Program (Program), based as it is on industry-average production costs, favours efficient farms with lower production costs than the industry-average. Cost efficiencies can be more easily achieved by large-scale farmers due to greater economies of scale. As a result, large farms receive payments based on the higher industry-average production costs even though it cost them less than that to produce their commodity.

This is further reflected in program participation rates. A 2016 Ministry analysis found that 60% of farms with gross receipts over $1 million participated in the Program, compared to just 20% of farms with gross receipts under $100,000.

We reviewed a sample of payment files to determine whether the industry-average cost of production used to calculate the payment in fact reflected the actual cost of production for each individual farm. In one-third of the files we reviewed, farmers reported lower production costs than the industry average. On average, the cost of production for each farm was 26% lower than the industry average. For example:

- One hog farmer received $827,000 in payments in 2015. The farm's actual cost of production was $36.4 million, but the industry-average cost of production for an equivalent-sized farm, used to calculate the payment, was $66.3 million. Substituting the farm's actual cost of production for the industry average would have resulted in the farmer receiving no payment at all.
- One cattle farmer received $497,000 in payments in 2015. The farm's actual cost of production was $22.5 million, but the industry-average cost of production for an equivalent-sized farm, used to calculate the payment, was $38 million. Substituting the farm's actual cost of production for the industry average would also have resulted in the farmer receiving no payment.

To determine the extent to which large farms have benefitted from the Program, we analyzed program participation and payment information from 2011 to 2015. We found that although farms with gross receipts over $1 million make up only 20% of program participants, they received three-quarters of all payments. While the disproportionate payments can be attributed to another design component of the Program, which bases payments on the number of units of commodities enrolled, it further highlights why large farms potentially benefit more from the Program: large-scale farms have the capacity to increase production with lower per-unit costs.

Our survey of farmers also confirms these observations. Only 14% of respondents with gross revenues of less than $10,000, and 24% of respondents with gross revenues of $10,000 to $99,999, indicated that the Program helped them manage their risks. In comparison, almost half of respondents with gross revenues of $500,000 or more indicated that the Program did help them manage their risks.

According to the Organisation for Economic Co-operation and Development (OECD), farmers with sufficient working capital can tolerate fluctuations in their annual incomes. Based on this, and on our analysis, support payments are not being directed to those farmers most likely to need them.

RECOMMENDATION 2

To ensure that all farms regardless of size have equal opportunities to receive Ontario Risk Management Program (Program) payments, we recommend the Ministry of Agriculture, Food and Rural Affairs improve the current method of calculating Program payments to better reflect the differences in farming operations across the province, for example by establishing different calculations based on the size of farming operations.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that all farm businesses should be treated equitably. As future opportunities for the Program are considered concurrently with the Federal-Provincial-Territorial (FPT) business-risk-management (BRM) review, better methods to calculate and target program payments to different farming operations (including farm size) across the province will be considered.

The Program evaluation will be completed in concert with the BRM review. Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.1.3 Unclear Eligibility Rules for Livestock Operations Result in Overpayments

Since 2011, when the Ministry launched the Ontario Risk Management Program (Program), Agricorp has identified 15 farmers who were incorrectly paid a total of over $2 million because of unclear eligibility rules for livestock operations.

The Order-in-Council that created the Program states that "the farmer must own and produce cattle in Ontario" to be eligible for the Program, and farmers have interpreted this to mean having legal title to the cattle.

However, according to the Ministry and Agricorp, the ownership rule refers to having ownership of the risks related to raising and selling the cattle. In the livestock sector, the farmer who has legal title to the cattle is not necessarily exposed to the risks normally associated with legal ownership, because livestock farmers may be involved in a variety of business arrangements that include:

- **Custom-feeding arrangements**, in which the legal owner sends the cattle to a commercial feedlot that specializes in feeding and managing animals (custom-feeder) until they are ready for slaughter. Depending on the terms of these arrangements, the custom-feeder may be exposed to risks related to raising the cattle—for example, rising feed costs.
- **Joint-venture arrangements**, in which an investor purchases an interest in cattle that are legally owned by a farmer. In this case, both the investor and the legal owner are exposed to risks related to raising and selling the cattle.
- **Leasing arrangements**, in which the legal owner may lease the animals to another farmer (the cattle operator), who has full control and responsibility for management. In this case, the cattle operator is exposed to risks related to raising the cattle, but the legal owner may be exposed to risks related to selling the cattle.

Figure 12 provides actual examples of cases in which overpayments by the Program resulted from these types of arrangements.

One of the examples in **Figure 12** shows the Ministry and Agricorp have been aware of the potential for misinterpretation of the livestock ownership rule since 2011. In 2014, Agricorp clarified the definition of ownership in the publicly-available Program handbook to include "the right of possession of livestock and their associated risks" and that "Agricorp considers ownership, price risk and production risk in determining eligibility." However, the clarification still falls short because the handbook does not define "price risk" or "production risk."

In addition, Agricorp has not identified the various types of livestock business arrangements that may affect farmers' eligibility; nor has it identified which farmers are involved in such arrangements. Our analysis of income-tax data from the Canada Revenue Agency found that nearly 200 farmers reported custom-feeding income and/or expense on their tax returns in the last five years. This suggests there could be additional overpayments by the Program related to the livestock ownership rule that Agricorp has not yet identified.

Figure 12: Examples of Overpayments Related to Livestock Ownership Rule
Prepared by the Office of the Auditor General of Ontario

Joint-Venture Arrangements

In 2014, Farmer A informed Agricorp that Farmer B had applied for payment on cattle owned by Farmer A. Agricorp conducted an audit involving several farm corporations owned by Farmer A and 18 other farmers who had invested in joint ownership of the cattle with Farmer A.

The audit found that Farmer A and some investors had received payments for the same cattle from 2011 to 2014. Agricorp calculated that Farmer A and the investors were overpaid by more than $200,000 during that period. At the time of our audit, $25,000 of the overpayment was still outstanding.

Custom-Feeding Arrangements

Before enrolling in the Ontario Risk Management Program in 2011, Farmer C, who was in a custom-feeding arrangement with Farmer D, contacted Agricorp to inquire whether their cattle would be eligible for the Program. Agricorp informed Farmer C that their cattle appeared to be eligible. In 2011, Farmer C received over $790,000 in program payments.

Agricorp's program audit group later found that over $490,000 of the payment was actually for ineligible cattle because Farmer D, who bore the risks of raising the cattle, also received program payments of $415,000 for the cattle. Farmer C appealed the decision and stated an intention to bring the matter to the Business Risk Management Review Committee.

The Ministry and Agricorp decided to pay both farmers for the same cattle due to the misunderstanding. As a result, the two farmers were paid over $2.4 million for the same cattle in 2011 and 2012.

Custom-Feeding Arrangements

A 2012 Agricorp audit found that Farmer E was in a custom-feeding arrangement, also with Farmer D above, and therefore received an overpayment of $15,000 for ineligible cattle.

As with the above example, Farmer E disputed the results of the audit and stated that the objective of the Ontario Risk Management Program, as indicated in the audit report, was not the official criteria or objective listed in the Order-in-Council. Farmer E stated that the audit report's statement that the Program was intended "to help producers who incur production risks and contribute to the actual raising of their commodity" was merely an opinion.

Unlike the above example, however, Agricorp stood by its decision and collected the overpayment.

RECOMMENDATION 3

To ensure that eligible livestock farmers receive correct Ontario Risk Management Program (Program) payments, we recommend that Agricorp:

- identify the types of livestock business arrangements that impact farmers' Program eligibility; and
- further clarify program-eligibility rules for the various types of livestock business arrangements.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation. Agricorp will further identify types of livestock (cattle) financial arrangements for the Program that have the greatest elements of risk for program eligibility.

Agricorp has completed the clarifications to program guidelines and eligibility requirements and a communications plan will be developed to share the information with the livestock industry for the 2018 program year.

RECOMMENDATION 4

We recommend that Agricorp identify those farmers involved in livestock business arrangements, and ensure that its application-review processes considers the impact of such arrangements when calculating payments.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation. Agricorp will further identify farm operations involved in complex financial arrangements for the Program. Claims for operations with these types of arrangements will be subject to enhanced review for the 2019 program year.

4.1.4 Federal Government Does Not Support Ontario Risk Management Program

The Ontario Risk Management Program (Program) is intended to complement existing business-risk-management programs—AgriStability, Production Insurance and AgriInvest. However, the federal government does not support the Program, and has repeatedly advised the Ministry that it would not provide funding for it, because the Program "contradicts the objectives" of national business-risk-management programs.

Agriculture and Agri-Food Canada (Agriculture Canada) advised us that the Program is not consistent with the "whole-farm approach" of the current suite of national business-risk-management programs, because it provides protection for a specific type of risk (i.e., market-related) and does not consider the performance of the entire farm operation.

The OECD recommends that farm-support programs take a "holistic approach" to agricultural risk management by considering all risks and their relationship to each other. This is because "risks in agriculture are interconnected, sometimes compounding, sometimes offsetting each other." For example, the impact of higher feed costs (i.e., production risk) is mitigated if the selling price of hogs also increases; it is the net impact on the farm's income that matters.

The Ministry originally intended the Program to complement AgriStability. By participating in both programs, farmers have access to a broad level of support to protect them from losses. In fact, the 2014 survey by the Ontario Federation of Agriculture indicated that 63% of respondents felt that participating in both AgriStability and the Program provided more comprehensive risk management for their farm operation. Despite this, in 2015, the Ministry eliminated the requirement to participate in AgriStability, apparently after strong industry pressure. According to petitions submitted by various commodity groups, the requirement that farmers participate in AgriStability before they can enrol in the Program limits farmers' flexibility to choose the programs that best meets their individual business circumstances.

We reviewed the participation rates in both the Program and AgriStability to determine how this impacted farmers' decision to participate in each program. We noted that the AgriStability dropout rate doubled, from 7% a year between 2011 and 2014 to 14% between 2014 and 2015. We also noted that one-third of those who left AgriStability continued to participate in the Program. Although recent changes to AgriStability (discussed in **Section 4.2.2** below), which resulted in lower coverage

and lower payments, may have contributed to the higher dropout rate, Ministry analyses state that delinking of AgriStability as being a requirement for the Program likely also contributed to farmers opting out of AgriStability.

Currently, only one-quarter of Ontario farms participate in AgriStability. Between 2011 and 2015, participation fell by nearly one-third. The decrease in AgriStability participation means that fewer farms have the necessary protection against significant declines in income, therefore limiting AgriStability's ability to provide support to farmers. In addition, the Ministry has estimated that lower AgriStability participation has resulted in $6 million to $15 million less in federal funding to Ontario farmers.

RECOMMENDATION 5

We recommend that the Ministry of Agriculture, Food and Rural Affairs review and update the design of the Ontario Risk Management Program in light of the strategies it has identified for the program to ensure that it operates in a manner consistent with the objectives of other business-risk-management programs.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. The Federal-Provincial-Territorial (FPT) Business Risk Management (BRM) review will revisit and confirm FPT BRM principles prior to assessing options to be brought to FPT agricultural ministers. As options to update the design of the Program are considered, they will be assessed against these principles.

The Program evaluation will be completed in concert with the BRM review. Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.2 Low Farmer Participation Limits AgriStability's Capacity to Provide Support

AgriStability bases payments on whole-farm income instead of specific commodities or risks (for example, losses due to severe weather or low market price). As such, it is more in line with international best practices. However, low and decreasing participation in AgriStability diminish its ability to effectively help farmers manage their own risks.

The number of farmers participating in AgriStability has decreased by half in the last 10 years. Between 2011 and 2015 alone, participation fell by nearly one-third. Farmers have cited insufficient support from AgriStability and delays in payments as reasons for dropping out. In fact, a 2014 survey by the Ontario Federation of Agriculture indicated that 75% of respondents did not feel AgriStability was responsive to their needs. This is consistent with the result of our survey of farmers, in which 76% of respondents indicated that AgriStability did not help them manage risks, or were uncertain about whether AgriStability helps them manage risks.

4.2.1 Farmers Do Not Benefit Equally from AgriStability

From 2013 to 2015, 10% of the over 21,000 grains and oilseed farmers' (the largest agricultural sector in Ontario) applications for AgriStability actually triggered payments, compared to 21% of cattle farmers' applications, despite more grains and oilseed farmers experiencing large declines in net income over the same period.

The Ministry advised us that payments depend on how the individual farming sectors perform in a given year. For example, AgriStability payments would increase in more challenging years for a particular sector. We analyzed income-tax data from the Canada Revenue Agency to determine how each sector performed, and found that from 2013 to 2015, over 40% of grains and oilseed

farmers experienced at least a 30% drop in net income. In comparison, 28% of cattle farmers reported a decline in income of at least 30%. This indicates that although more farmers in the grains and oilseed sector experienced a large decrease in net income, fewer farmers received AgriStability support.

Grains and oilseed farmers have fewer eligible expenses since their primary costs—equipment purchase and maintenance—are not eligible under AgriStability. As a result, they are more likely to be affected by the "limiting rule," which stipulates that if a farm's eligible expenses are less than its average net income, then the AgriStability payment is based on the lower eligible expenses rather than the average net income. The farmers would therefore need to incur a bigger drop in net income to receive a payment. In comparison, the primary costs of cattle farmers—purchase of animals and feed—qualify as eligible expenses. The "limiting rule" was introduced in 2013 to reduce support to farmers who may only be experiencing short-term fluctuations in profits. The Ministry stated that its intent is to direct payments away from farmers where the program is likely compensating for "lost profit" and towards those with insufficient revenue to pay their expenses. However, the rule has affected farmers differently based on the nature of their expenses.

To determine how the limiting rule impacts different types of farming operations, we analysed AgriStability applications and payments since the limiting rule came into effect in 2013. We found that from 2013 to 2015, for example, nearly three-quarters of grains and oilseed applications were affected by the limiting rule, resulting in applicants either receiving a lower payment or no payment at all. In comparison, only 21% of cattle applications were affected by the limiting rule.

Our findings are consistent with those of the Ministry's analysis of 2013 AgriStability applications. The Ministry found that 73% of grains and oilseed applications were affected by the limiting rule, compared to only 20% of cattle applications. Grains and oilseed farmers received $8.3 million for 2013, but the Ministry estimated that payments would have been $30.7 million—more than three-and-a-half times as much—without the limiting rule.

A 2016 Ministry review found that over 60% of the farmers who dropped out of AgriStability in 2015 were from the grains-and-oilseed sector. At the June 2017 meeting of federal, provincial and territorial governments, held to discuss the next agricultural framework, the governments acknowledged that the limiting rule is "treating sectors inequitably," which in turn diminishes AgriStability's ability to respond to farmers' needs. The inequity is also not in line with one of the principles of the *Growing Forward 2 Framework*, which states that programs must "treat producers and other stakeholders equitably across commodities and regions."

In 2014 and 2016, internal Ministry documents also noted that the limiting rule had unintended consequences for farmers who invested in technology to lower their direct costs, those who consciously lowered their direct costs to remain competitive, and those who must keep their direct costs low as a condition of their bank loans. The limiting rule also does not take into account farming practices that are intended to reduce farm expenses, for example, when farmers grow their own feed for their livestock. In other words, farmers with low eligible expenses will be affected by the limiting rule regardless of the reason for the low expenses.

At the time of our audit, the federal-provincial-territorial governments had announced that the limiting rule would be restricted so that the amount of eligible expenses that is used to calculate the AgriStability payment cannot be less than 70% of the farm's average net income.

RECOMMENDATION 6

To ensure that all participants, regardless of type of farming operation, have an equal opportunity to receive AgriStability payments,

we recommend that the Ministry of Agriculture, Food and Rural Affairs work with the federal government and other provincial and territorial governments to review and revise AgriStability rules as necessary to take into account the differences in farming operations and practices across the different sectors.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. The Federal-Provincial-Territorial (FPT) business-risk-manage (BRM) review will include an early focus on addressing shortcomings in the national suite related to market risk, with a specific focus on the AgriStability program. This will include assessing the current balance of support between sectors, types of risk and regions.

In the interim, changes to AgriStability agreed to by ministers this past summer, for implementation in 2018, are intended to better respond to losses experienced by capital-intensive businesses (for example, grains and oilseed farmers) and businesses with relatively lower expenses (for example, livestock producers that grow their own feed). These changes are intended to increase program participation.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.2.2 Changes to AgriStability in 2013 Lowered Coverage and Payments to Farmers

From 2013 to 2015, 10% of farmers who participated in AgriStability triggered a payment. The median payments per year ranged from $4,200 to $5,700. In fact, **Figure 6** shows that in 2015, over 60% of AgriStability recipients received $10,000 or less.

AgriStability is Intended to Compensate for Disaster-Level Loss

The *Growing Forward 2 Framework* brought several changes to AgriStability beginning in 2013, which made the program more complex, and resulted in less coverage and lower payments to farmers. The intent of these changes was to reduce expenditures for business-risk-management programs and shift funding to strategic initiative programs. In addition, the Ministry noted that the objective of these changes was to provide support only for "disaster-level income declines" and compensate farmers for losses rather than lower profits. Among the changes:

- The payment trigger rose, to 30% from 15%, meaning that farmers would have to experience a drop of more than 30% in their current-year net income compared to their average net income before qualifying for payments. Prior to the change, payments were triggered when a current-year net income declined by more than 15% from an average net income.
- The portion of the net income reduction for which farmers are compensated has also decreased, to 70% from 80% of the difference between the payment trigger and the current-year net income. Prior to the change, payments were based on tiers providing different levels of support depending on the degree of loss.
- If a farm's eligible expenses are less than its average net income, then the AgriStability payment is based on the amount of the lower eligible expenses rather than the net income (known as the limiting rule).

Figure 13 illustrates the impact of the above changes in AgriStability using the example of a farm with an average net income of $100,000, average eligible expenses of $90,000, and current-year net income of $60,000. The chart shows that the program changes resulted in a much lower AgriStability payment—$2,100, compared to $18,500 before the changes.

Figure 13: Impact of Changes in AgriStability under *Growing Forward 2* Framework

Prepared by the Office of the Auditor General of Ontario

	Before 2013 Change	After 2013 Change
Payment Rules and Formula		
Payment trigger	Current year net income drops below 85% of average net income	Current year net income drops below 70% of the average net income OR average eligible expenses, whichever is less
Payment calculation*	70% of net income decrease from 15-30% of average net income PLUS 80% of net income decrease over 30%	70% of the average net income OR average eligible expenses, whichever is less
Application of Rules and Formulas Using an example of a farm operation with an average net income of $100,000, average eligible expenses of $90,000, and net income for the year of $60,000.		
Average net income	**$100,000**	**$100,000**
Average eligible expenses	**$90,000**	**$90,000**
Net income[2] that triggers payment	Lower than $85,000 ($100,000 × 85%)	Lower than $63,000 ($90,000 × 70%)
Net income for the year	**$60,000**	**$60,000**
Payment triggered?	Yes (net income is below $85,000 trigger)	Yes (net income is below $63,000 trigger)
AgriStability payment	**$18,500** ($85,000 − $70,000) × 70% + ($70,000 − $60,000) × 80%	**$2,100** ($63,000 − $60,000) × 70%
AgriStability payment as a % of the reduction in net income	**46.25%** $18,500 ÷ ($100,000 − $60,000)	**5.25%** $2,100 ÷ ($100,000 − $60,000)

* Net income must be below the average net income or eligible expenses ($85,000 before the 2013 change or $63,000 after the 2013 change in the example above) to actually trigger a payment.

In 2015, the federal, provincial and territorial governments assessed the impact of changes to AgriStability on a sample of Canadian farmers, and found that one-third of applications would have been paid prior to 2013, compared to only 14% under the current rules. Further, the total value of payments dropped by almost two-thirds, from $529 million to $186 million.

We analyzed AgriStability payments since 2013 to understand how the changes affected Ontario farmers. We found that the limiting rule has affected over half of the more than 44,000 applications since 2013, resulting in many farmers either receiving a lower payment than they would have prior to the changes, or none at all. Specifically, almost 30% of the 5,500 payment recipients received $18 million less in benefits. On average, each farmer received 50% less than they would have without the limiting rule. In addition, 4,200 farmers who did not receive a payment would have received $60 million ($14,300 on average) without the limiting rule. For example:

- One farmer received $455 to compensate for a $174,000 (or 64%) drop in their 2013 net income from the average net income. Without the limiting rule, the farmer would have received $64,687.
- Another farmer received $877 to compensate for a $1.39 million (or 58%) drop in their 2015 net income from the average net income. Without the limiting rule, the farmer would have received $472,055.

As noted above, these changes were intended to provide support only for "disaster-level income declines." However, a February 2016 report by the Canadian Federation of Agriculture on the current suite of Canada-wide farm-support programs stated that AgriStability cannot be limited to

providing disaster support. It further states that farmers consider a 15%-or-more drop in income (compared to their average) that results in a lack of profitability that year as a "significant income loss." These conflicting statements demonstrate the gap between farmers' expectation of the government's role in farm risk management and the government's expectation of the level of risk that farmers must manage themselves.

Farmers Cannot Predict if They Will Receive Payments

A 2014 Ontario Federation of Agriculture survey found that 97% of respondents said they could not predict how much AgriStability support they would get.

As illustrated in **Figure 9**, there are many steps in calculating AgriStability payments. This simplified illustration still does not take into account the various adjustments that Agricorp staff must make to account for:

- changes in the level and value of inventory; and
- changes in the farm's operations, productive capacity, ownership, size, practices, and type of commodity farmed.

These adjustments further complicate the payment calculation, and make it difficult for farmers to accurately estimate their AgriStability payment.

A 2017 federal internal audit evaluation report also highlighted farmers' difficulties understanding AgriStability, stating that, of those interviewed, "a substantial number rely on their accountants to complete their AgriStability application." Our review of AgriStability participation from 2011 to 2015 found that, on average, 2,800 farmers each year (or 16%) pay their fees but do not submit the required forms to be eligible for payment. Although the Ministry and Agricorp have not investigated why, they advised us that it is likely because farmers may not expect a payment, and so do not want to spend time or money on the paperwork.

The House of Commons Standing Committee on Agriculture and Agri-Food stated in its March 2017 report on farm-support programs that "in order to be truly effective, any [business-risk-management] program must be both predictable and responsive in a timely manner to ensure [farmers] can make decisions to react to market conditions."

This is further supported by the Canadian Federation of Agriculture's 2017 report on farm-support programs, which said that "AgriStability payments must be calculated in a transparent and straightforward fashion that allows [farmers] to predict and bank upon impending payments."

Our discussions with various commodity groups indicate that it is important for farmers to be able to estimate how much program support they will receive because it helps them plan their operations, manage their cash-flow requirements, and determine if they need to seek financing. And because farmers cannot estimate their AgriStability payments, the program may not be effectively helping farmers manage their risks.

We highlighted similar concerns about the predictability of AgriStability payments in our *2008 Special Report* on farm-support programs. Since then, Agricorp has enhanced its communications to farmers to better explain the program rules and calculations. Agricorp also now provides details of the various adjustments made to farmers' reported income and expenses to arrive at the AgriStability payment. However, the current forms of communication do not help with predictability since they only discuss general rules and provide information about the specific adjustments after the farmer's payment application has been processed by Agricorp.

We noted that the Grain Farmers of Ontario organization has an online tool that helps farmers estimate their potential Ontario Risk Management Program payment. The tool calculates farmers' potential Program payment using farmers' estimates. Some accounting firms that help farmers apply for farm support also have software that calculates potential AgriStability payments. Similar

tools that use farmers' historical information and allow them to enter their estimated income and expenses to determine how much AgriStability payment they will receive may help enhance the predictability of AgriStability payments.

RECOMMENDATION 7

To ensure that farmers receive the appropriate level of support for their losses under AgriStability, we recommend the Ministry of Agriculture, Food and Rural Affairs (Ministry) work with the federal and other provincial and territorial governments to:

- establish and clearly communicate to farmers the level of risk that farmers are expected to manage themselves; and
- determine how the 2013 AgriStability changes affect the program's ability to contribute to the goals of the *Growing Forward 2 Framework* of a profitable, sustainable, competitive and innovative agricultural industry.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. Business-risk-management (BRM) programs, as a suite, are intended to support farmers in their individual risk management approaches. Appropriate government and industry risk sharing was foundational to the Federal-Provincial-Territorial (FPT) *Growing Forward 2* mid-term review that was brought to the ministers in the summer of 2016. This analysis will be revisited as part of the FPT BRM review to clarify the level of risk farmers are expected to manage themselves within the context of global market forces and government actions in competing jurisdictions. Appropriate communications to farmers regarding their responsibility for managing risks will follow. The BRM review will include analysing the extent to which BRM programming is contributing to the goals of the new FPT framework.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

RECOMMENDATION 8

To enable farmers to reasonably estimate their AgriStability payments, we recommend that the Ministry provide farmers with the information and tools necessary to enable them to reasonably estimate their AgriStability payments.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation. Federal-Provincial-Territorial (FPT) governments recognize that payment predictability is an inherent challenge in the design of programs like AgriStability that are based on individual farm income. The FPT business-risk-management (BRM) review will include an early focus on AgriStability and market risk given concerns that industry has raised, including payment predictability. The Ministry will work with FPT colleagues to explore options to help producers reasonably estimate AgriStability payments.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.2.3 Farmers Do Not Receive Payments in Same Year as Their Loss

From 2011 to 2015, farmers received their AgriStability payments, on average, 10 months after the end of their tax year. For example, only 24 (or 1%) of 2015 AgriStability recipients received their payments (totalling $4.5 million) by the end of 2015. These payments were either the result of a farmer applying for an interim payment or having an early tax year-end.

The delay in payments is due to the design of the program. Agricorp uses income-tax information from the Canada Revenue Agency to calculate

AgriStability payment. For any calendar year, income-tax returns must be filed in April or June of the following year. Agricorp then collects additional information from farmers beginning in June until December at the latest. Agricorp staff begin reviewing the payment application once the required forms and tax information are received. Our review of AgriStability payment applications from 2011 to 2015 found that the time to process an application ranges from less than one day to five years. On average, applications that resulted in payments required almost three-and-a-half months to complete. The processing time includes reviewing income-tax information submitted by farmers and any subsequent review to approve the payment amount, particularly for large-dollar payments.

The OECD, in reference to AgriStability, noted that a "lengthy delay in payments is not a helpful characteristic for a programme that intends to stabilize farm returns," because "delayed payments are not able to help with cash-flow issues that may arise from a bad year, and may arrive when income is in an upswing."

The Ministry advised us that the timing of cash-flow needs varies depending on the type of farming operation. However, farmers who experience a significant loss in the beginning of their tax year may end up waiting nearly two years to receive their AgriStability payment. The OECD noted that delayed compensation may help manage smaller declines in income, but "it can never be appropriate for … short-term shocks."

The results of our survey also highlighted the importance of timely payments. For example, one farmer indicated that "in a growing season (like 2017 so far), where many farmers have lost in the range of 30-80% of their crops due to too much rain, fast-tracking the payments to the farmers would be helpful in being able to keep paying the bills."

Risk of Having to Pay Money Back May Deter Farmers from Applying for Interim Payments

One of the main criticisms that farmers level against AgriStability is the delay in payments, but the Ministry advised us that the delay is the result of a trade-off between timeliness and accuracy. To be accurate, Agricorp requires information from the Canada Revenue Agency, which requires a longer time frame. The Ministry has indicated that interim payments can be an option to deal with the timeliness issue.

Farmers may apply for interim payments if they are experiencing serious cash-flow issues. The interim payment provides farmers with half of the estimated AgriStability payment, which is later deducted from the final AgriStability amount based on the farmers' actual income and expenses. However, our analysis of payments in the last five years found that fewer than 1% of AgriStability participants requested an interim payment—for example, only 42 farmers applied for interim payments in all of 2015.

Neither the Ministry nor Agricorp has determined the reasons for low interim payment application rates. The 2012 federal internal audit report on Agriculture and Agri-Food Canada's delivery of AgriStability offered a possible explanation for the low number of interim-payment applications: because interim payments are based on preliminary figures and estimates, farmers are hesitant to apply for fear that whatever they get on an interim basis may be clawed back later, when final figures are in.

To determine whether there is sufficient basis for this concern, we compared the interim payment to the final calculated AgriStability payment for all interim payments from 2011 to 2015. We found that for 14% of interim payment recipients from 2011 to 2015, the interim payment amount was greater than the final calculated AgriStability benefit, suggesting that the interim payment led to an overpayment. The individual overpayments ranged from $145 to $79,000. As a percentage of the interim payment amount, the individual overpayments ranged from less than 3% to 100% of the interim

payment amount. On average, the value of the overpayment was 64% of the interim payment.

We also noted that Agricorp calculates all interim payments manually using Excel, which increases the risk of errors. This is because the IT system that Agricorp uses to administer AgriStability does not have the capability to calculate interim payments. This issue is further discussed in **Section 4.5.1**.

RECOMMENDATION 9

To ensure that more farmers receive AgriStability payments in a timely manner, we recommend that the Ministry of Agriculture, Food and Rural Affairs work with commodity groups to determine the reason for low interim payment application rates.

We also recommend that Agricorp strengthen its processes to improve the accuracy of interim payments.

MINISTRY AND AGRICORP RESPONSE

The Ministry agrees with the Auditor General's recommendation. Interim payments are calculated based on six months of actual information and a producer's projection of the final six months. The Ministry and Agricorp will work with commodity groups to better understand the reasons for low uptake of interim payments and will review options on how to improve producers' estimated projections when in financial distress to improve the accuracy of interim payments. Any associated improvements, including changes to the calculation of interim payments, will be implemented for the 2019 program year.

4.3 Ministry Poorly Equipped to Provide Support during Crises

4.3.1 Existing Programs Likely Insufficient in a Crisis

The Ministry advised us that the intent of the existing suite of business-risk-management programs is to address challenges faced by the agricultural sector without the need for one-time programs. However, based on our review, we found that support provided through existing programs may not be sufficient in a major crisis; additional financial assistance through one-time programs may be required (see **Appendix 3**). Specifically:

- **Low and decreasing participation in AgriStability means fewer farmers have the necessary protection against losses.** The federal-provincial-territorial governments highlight AgriStability as the primary program to address losses caused by market changes. However, three-quarters of Ontario farmers currently do not have protection under AgriStability. The 2016 conference of Federal-Provincial-Territorial Ministers and Deputy Ministers of Agriculture raised concerns that the low participation rate in AgriStability could increase pressures for additional funding in a crisis. Even those farmers who do participate may not have the necessary protection because of recent changes to the program (described in **Section 4.2.2** above).
- **The current suite of programs would not provide support during prolonged crises.** Because AgriStability payments are based on a rolling five-year average net income (i.e., farmers' net income in the most recent five-year-period), farmers are less likely to receive any payment after consecutive bad years. As their average net income decreases due to the bad years, farmers must then experience a much lower net income before they can receive any payment. The Ministry advised us that AgriStability was intentionally designed

to ensure that the government does not support farm businesses that are not viable. Similarly, since Production Insurance payments are also based on a farmer's rolling five- or 10-year average yield, farmers are less likely to receive payments after consecutive years of low yields.

- **Production Insurance is designed to compensate crop farmers only for yield reductions and losses due to adverse weather, wildlife, pest infestation and disease.** It will not protect farmers from losses from low selling prices or high supply prices.
- **The Ministry has capped funding for the Ontario Risk Management Program at $100 million annually, including administration costs.** As a result, the value of payments and the percentage of loss for which farmers are compensated decrease as more farmers apply for funding. In addition, the Ministry has stated that participation in the program is "too low and skewed to larger farmers [discussed in **Section 4.1.2**] to ease pressures for [emergency] support in challenging times."
- **AgriInvest would only cover small income fluctuations.** AgriInvest is a savings-account program in which the federal and Ontario agriculture ministries match farmers' contributions. However, as of January 2017, the median balance in individual farmers' accounts was $2,900, and only 5% of participants had an account balance of over $50,000.

The federal, provincial and territorial governments conducted a "stress test" in 2016 to determine how the Canada-wide business-risk-management programs would respond to extreme weather and market events. The test found that in the event of a 70% drop in net income stemming from a market crisis, AgriStability would cover only 20% of the drop and AgriInvest would fill in some of the gap, leaving farmers to face the remainder without compensation. This suggests existing programs would leave farmers with a need for significant additional support in the event of an emergency.

Our survey also confirmed that farmers do not believe the programs provide sufficient support to help them remain viable during a crisis. As shown in **Appendix 5**, 64% to 82% of respondents either felt that the programs were not sufficient to help them remain viable through crises, or were not certain if the programs were sufficient.

4.3.2 Ministry's Contingency Plan Inadequate to Provide Crisis Support

The Ministry has not developed a contingency plan that would help facilitate support to farmers during a market crisis. As part of the provincial government's emergency-management planning, the Ministry created an incident management plan that can help *contain* emergencies related to farm animal and crop diseases, pest infestation, and food contamination.

While the incident management plan may help to mobilize personnel within the Ministry to respond quickly to emergencies, it is not designed to deal with long-term crises or provide financial support to help the agricultural sector recover from resulting losses. The plan has no criteria that specifies the types of costs covered and the level of support to be provided in an emergency. The plan would also likely not be used during market crises such as those caused by high input costs or exchange rates.

In comparison, New Zealand's *Primary Sector Recovery Framework* integrates emergency-management planning with financial recovery support. The Framework outlines potential financial assistance for small-, medium-, and large-scale events, and incorporates existing social support services.

Existing Disaster-Relief Plan Does Not Cover Long-Term or Market-Related Crises

The *Growing Forward 2 Framework* includes a disaster-relief framework—called AgriRecovery—which outlines the process that the federal and

provincial governments may follow in the event of a disaster. AgriRecovery provides financial assistance to lessen the impacts of a natural disaster and help farmers resume operations as quickly as possible. AgriRecovery's scope covers crises related only to natural disasters, such as extreme weather, livestock disease, pest infestation, and environmental contamination. It does not apply to market-related crises.

The Ministry also noted that AgriRecovery is not intended to address recurring disasters or long-term crises. This, despite the OECD noting that climate change is likely to increase the likelihood and frequency of extreme weather events. History also indicates that market downturns or crises can have long-term impacts, such as the downturn that affected the hog industry in the late 2000s due to the high Canadian dollar and high grain prices, or the winding down of the tobacco industry.

In addition, the Ministry's own internal documents state that AgriRecovery would not provide timely support. For example, when the Ontario bee sector faced a higher-than-normal bee-mortality rate due to harsh winter conditions in 2014, the Ministry did not follow the AgriRecovery process because of the "lengthy approvals process" to assess eligibility for funding and obtain funding from the federal government. Instead, it chose to create a new two-year program called the Beekeepers Financial Assistance Program.

The OECD stressed the importance of having "a set of pre-established procedures … explicit triggering criteria … and clear definition of the type and level of assistance" to help governments manage a crisis.

Most Serious Farm Losses Caused by Market Crises

A 2011 OECD study of major catastrophes faced by Canadian farmers found that the most serious losses to which governments have had to react were market-related. This is also true in Ontario.

As seen in **Appendix 3**, the largest one-time program in the last 10 years was the 2007/08 Ontario Cattle, Hog and Horticulture Payment (Payment), which provided $139 million to over 13,000 farmers who experienced large financial losses due to poor market conditions. **Appendix 6** describes the problems encountered by the Ministry in delivering the Payment. A contingency plan could help inform the design of future one-time programs to prevent similar problems.

A group of farmers is currently pursuing legal action against the Ministry and Agricorp, alleging that the Payment based benefits on outdated information that did not reflect the extent of the farmers' loss at the time.

RECOMMENDATION 10

To ensure that the Ministry of Agriculture, Food and Rural Affairs (Ministry) provides timely and appropriate support to farmers in a crisis, we recommend the Ministry:

- develop a crisis-response plan that outlines roles and responsibilities for designing and delivering crisis programs, provides criteria for when support will be provided and to whom, and identifies potential sources of funding; and
- work with the federal-provincial-territorial governments to improve the timeliness of the AgriRecovery process.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General that there are opportunities to improve business-risk-management (BRM) support to producers in times of market crisis. The BRM suite of programs is intended to be capable of supporting producers without the need for additional ad hoc support. The Ministry agrees that the current suite, given current levels of participation in the AgriStability program, may leave some producers that have chosen

not to participate vulnerable to an unexpected market event.

Beginning with the 2018 program year, the AgriStability program will introduce a new mechanism that will give Ontario the ability to work with the federal government to allow producers late access to the program in the event of a crisis that develops after normal application deadlines have passed. The details of the mechanism and associated criteria will be determined with Federal-Provincial-Territorial (FPT) partners in the coming months.

The FPT BRM review will include stress-testing how the current suite will respond to significant events, and will look for opportunities for improvement. Also, options will be tabled to increase program participation and to improve timeliness of support, including those provided through the AgriRecovery process. Within the context of this review, the Ministry will work with its partners to document a crisis-response plan.

Options from the BRM review will be considered by FPT ministers at their meeting in the summer of 2018.

4.4 Overpayments Occur Due to Incorrect and Misleading Information from Farmers

4.4.1 Payments Based on Farmers' Self-Reported Information

Payments under the business-risk-management programs are based on income, expenses, and other financial information reported by farmers mainly through their tax returns. Farmers are not required to provide independent documentation, such as sales invoices and purchase receipts, to support the information they report to Agricorp for Production Insurance and the Ontario Risk Management Program.

Due to the lack of independent documentation to verify farmer-reported information, Agricorp staff can only assess the reasonableness of such information when reviewing applications. A 2016 Ontario Internal Audit report noted that when farmers are required to provide little support, the programs are "at risk of exploitation." Based on our review of a sample of payment files and the findings of Agricorp's program audit group, we noted that farmers were receiving incorrect payments as follows:

Inaccurate Payments Result from Farmers Submitting Incorrect Information

From 2013 to 2017, Agricorp's program audit group found that in 31% of the over 560 audits they conducted, farmers were either overpaid or underpaid by a total of $5.6 million. **Figure 14** summarizes the results of the audits from 2013 to 2017.

Agricorp's program audit group ensures that eligible farmers receive the correct support payments by requesting supporting documentation from farmers or conducting farm visits to validate information reported by farmers. The group also looks at Agricorp's review of information submitted by farmers to ensure that payments are correctly calculated.

In 72% of files with overpayments or underpayments in 2017, the error occurred because farmers had incorrectly reported income and expense information on their program applications. Some examples include:

- The 2016 audit of AgriStability payments to three related farm corporations found that the three were overpaid by $362,000 in 2013. The farm corporations had incorrectly included ineligible amounts in their income and expenses.
- The 2016 audit of a farm's AgriStability payment found that the farmer had incorrectly reported opening and ending inventory balances, and included ineligible amounts in income and expenses. The audit resulted in 30 adjustments to various income and expense items in the farmer's 2013 and 2014 applications, which amounted to over $1.1 million in underpayment in both years.

Figure 14: Results of Agricorp's Program Audits, 2012–2017

Prepared by the Office of the Auditor General of Ontario

	2013	2014[1]	2015	2016	2017	Total
Total # of files audited	138	113	91	104	116	**562**
Total value of payments audited ($ million)[2]	16.6	1.5	12.2	9.0	15.5	**54.8**
Files with payment changes[3]						
# of files with underpayments	11	1	10	17	17	**56**
# of files with overpayments	19	3	25	30	41	**118**
Total # of files with payment changes	**30**	**4**	**35**	**47**	**58**	**174**
As a % of files audited	22	4	38	45	50	**31**
Value of payment changes						
Value of underpayments ($ million)	0.034	0.002	0.218	2.073	0.041	**2.368**
Value of overpayments ($ million)	0.111	0.047	0.845	0.899	1.286	**3.188**
Absolute value of payment changes ($ million)	**0.145**	**0.049**	**1.063**	**2.972**	**1.327**	**5.556**
As a % of payments audited	1	3	9	33	9	**10**

1. The vast majority of audits conducted in 2014 were "no-payment" files selected at random. Following the Ontario Internal Audit Division's recommendations, audits in subsequent years included higher-risk files.
2. Pre-audit value.
3. Payment changes include any increase or decrease in the calculated payment, which were identified as a result of the audit. These include changes resulting from pre-payment audits, which were done before payments were issued to farmers.

Overpayments Result from Farmers Submitting False Information

In 2015/16, Agricorp's program audit group identified five instances where farmers provided false or misleading information to Agricorp in both their AgriStability and Ontario Risk Management Program applications. For example, Agricorp found that the operators of six farms involved in complex financing arrangements with each other had provided fictitious documents, such as invoices for feed and cattle sales, to Agricorp. They had also applied for multiple payments for the same cattle from 2011 to 2015. During that period, the farmers received a total of over $200,000 in benefit payments under AgriStability and the Ontario Risk Management Program.

Prior to 2016/17, Agricorp's program audit group did not track instances where farmers were found to have provided false or misleading information in their applications. However, in 2015, the audit group found that a farmer under-reported his soybean and corn yield in his 2011 and 2013 Production Insurance claims by including a portion of his yield in his wife's name. The 2011 soybean claim amounted to $76,000 while the 2013 corn claim was for $45,000. Agricorp clawed back the entire 2011 claim, which had already been paid out, and denied the 2013 claim, which was being processed during the audit.

Understanding that involvement in custom-feeding arrangements will impact a farmer's eligibility and the amount of payment under the Ontario Risk Management Program (as described in **Section 4.1.3**), we wanted to determine whether farmers reported such arrangements in their applications. We noted that only custom-feeders are required to report their involvement in these arrangements. We analysed income-tax information from the Canada Revenue Agency from 2012 to 2016, and found that 42% of farmers who reported custom-feeding *income* during that period did not indicate in their Program applications that they were custom-feeding livestock that is owned by another farmer. Agricorp advised us that these farmers could be custom-feeding different types of livestock than those they enrolled in the Program.

However, Agricorp has not confirmed whether this is the case because staff are not required to review farmers' income-tax information when reviewing payment applications.

Relying only on one party of the agreement (i.e., the custom-feeders) to report their involvement does not provide Agricorp with the necessary information to determine which party is eligible for Program payment. As described in **Section 4.1.3**, determining eligibility for Program payment depends on the terms of the custom-feeding arrangement. In fact, five of the 15 farmers described in that section who received incorrect payments were livestock owners who were not required to report their involvement in custom-feeding arrangements. The five farmers received a total of $1.8 million in Program payments for which they were ineligible. We also noted that Agricorp staff are not required to check for custom-feeding expenses despite having access to such information in farmers' income-tax returns. Our analysis of income-tax information from the Canada Revenue Agency from 2012 to 2016 found that, on average, 112 livestock owners reported custom-feeding expenses in their income-tax returns per year. Agricorp had not analysed this information to determine if both parties of the agreement had properly claimed cattle for which they were eligible to receive Program payments.

4.4.2 Farm Visits Done Only in Few Cases

Farm visits are not required to verify information reported by farmers for payments under AgriStability or the Ontario Risk Management Program.

For Production Insurance, visits are conducted depending on the circumstances of the claim; if, for example, a claim seems unusually large for the area or for the year, or if a farmer has a history of frequent claims. However, Agricorp does not systematically track either the number or the results of farm visits conducted in any given year.

At our request, Agricorp compiled a list of all activities completed by its field staff in 2015, based on its time-tracking system. The list indicates that Agricorp field staff conducted almost 11,000 farm visits. However, we found that field staff recorded their visits differently. For example, some staff recorded separate visits for each crop inspected.

As a result of these factors, we could not reasonably determine what proportion of farmer claims was verified through farm visits. In our survey of farmers, we asked respondents if Agricorp had visited their farm in the last five years. About one-quarter indicated that Agricorp had visited their farm and that the primary purpose of the visit was crop or yield inspection in relation to a Production Insurance claim.

We also reviewed a sample of inspection files to understand how Agricorp's field staff verify farmer-reported information. We noted that inspection reports did not contain sufficient information about how information was verified. For example, there are no clear criteria to assess whether the farmer used good farm-management practices. Field staff are responsible for determining whether any part of the claim is attributable to poor farm-management practices, which would result in part or all of the claim being denied. Agricorp advised us that assessing whether or not farmers used good farm-management practices is subjective, because staff must consider crop-growing conditions, which are variable, as well as the method of growing (i.e., conventional or organic).

The importance of conducting farm visits and documenting how farmer-reported information was verified during such visits are highlighted in the following examples:

- In 2015, a farmer applied for AgriStability and reported a $3-million inventory loss. Agricorp staff did not conduct a farm visit at the time of the loss because visits are not required under AgriStability and the farmer did not participate in Production Insurance. A subsequent Agricorp audit noted that a farm visit would have "allowed [Agricorp staff] to assess disaster circumstances on-time and/or review whether best farming practices have

been followed." As such, Agricorp was left with two options: accept the farmer's estimate of inventory loss in absence of documentation, or estimate the loss using prior-year inventory levels. Agricorp chose to accept the farmer's estimate and paid the farmer a total of $2.43 million.

- Between 2011 and 2016, three of the six cases related to Production Insurance claims where the review or appeal resulted in payment changes were due to poorly-documented inspection reports. For example, the Tribunal awarded an additional $147,000 (or 46% more than the original payment) to one farmer because the Tribunal "heard inconsistent testimony from different [Agricorp staff who conducted the farm visits] about the type and amount of disease present" and that Agricorp could not provide evidence to indicate that the staff inspected identical sites within the vineyards.

RECOMMENDATION 11

To ensure that farm-support payments are accurate and made only to eligible farmers, we recommend that with respect to high-risk applications, Agricorp:

- require source documentation to support information provided by farmers in their applications; and
- explicitly identify the circumstances when a farm visit is necessary to further validate the information reported by farmers, and track the results of such farm visits.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation. Agricorp will enhance the internal risk-based claims process that includes targeted, random, and large-value audits to further identify circumstances where additional source documentation should be obtained or a farm visit is required to validate information provided by farmers. This will be added to claims processing during the 2018 program year.

A new system to deliver Production Insurance will include capabilities to better report on farm visits, including visits conducted for claims verification, and the outcomes of the visits. In the long-term, Agricorp expects to migrate AgriStability and the Ontario Risk Management Program to the new system.

4.5 Agricorp's Aging IT Systems Costly and Susceptible to Errors

Agricorp uses over 30 IT systems to administer Production Insurance, AgriStability and the Ontario Risk Management Program. Thirty secondary systems either feed information to, or extract information from, the four main systems that Agricorp uses to administer the programs.

Of the four main systems, the one used to administer Production Insurance is 25 years old while another, which processes AgriStability, is over 10 years old.

4.5.1 System Errors Lead to Incorrect Information, Payments to Farmers

In the last five years, there have been 31 system-related errors that resulted in farmers either receiving incorrect information about their program participation, or incorrect payments totalling over $2.7 million. In over 85% of cases, Agricorp only found out and corrected the errors after being notified by the farmers.

The systems require many manual workarounds that cause delays and errors. For example, Agricorp noted in 2007 that the Zephyr system, which is used to deliver the AgriStability program, was originally developed to deliver a small disaster-relief program without the "workflow, audit trails, financial functionality, or the capability to handle the volume of files that the system must manage."

Despite significant modifications to Zephyr over the years, it still cannot perform a number of calculations. For example, interim AgriStability payments are calculated outside of Zephyr. Almost $17 million in AgriStability payments for 2015, representing 23% of the total value of all program payments (including interim payments), were calculated manually using Excel spreadsheets, and then imported back into Zephyr for processing. In our review of interim payments, we found errors and delays in payments due to human error. For example:

- In 2012, an Agricorp staff incorrectly entered acreage data from the application form into the Excel spreadsheet, which resulted in the farmer initially receiving $6,000 less in an interim payment. The error was identified by the farmer's accountant after receiving the payment.
- In 2012, an interim payment was held up by two months because Agricorp staff overlooked the calculation of the application fee, which also had to be determined manually. Although the interim payment had already been calculated, Agricorp could not issue the payment until the application fee was deducted from the amount. Agricorp only found out about the oversight when the farmer's accountant inquired about the interim payment.

Farmers' annual participation fees may also be calculated manually on Excel spreadsheets if Agricorp does not have complete information about a farmer in the case of a new participant or a past participant with incomplete information. In the last five years, fees for 20% (or 16,000) of AgriStability participants have been calculated manually, totalling $6.7 million (or 16% of total fees billed). Prior to our inquiries, Agricorp did not know the value of fees that were calculated manually.

Manual workarounds result in increased costs and risk of human error. According to Agricorp, it takes about eight to 15 staff approximately five to 10 days each year to manually calculate AgriStability fees. In addition, as a result of our inquiries, Agricorp found an error where staff entered $70,000 instead of $700,000 as income for one farmer. Consequently, the farmer was only billed $276, or 12% of the correct fee of $2,260.

In addition, the systems are not inter-connected and lack sufficient data edits to ensure that information is accurate. These weaknesses have resulted in, for example, four system-related errors in 2011 that led to more than 400 farmers either receiving incorrect information about their program participation or incorrect payments. In one instance, a coding error resulted in 94 AgriStability and Ontario Risk Management Program participants being overpaid.

4.5.2 Maintaining IT Systems Requires Significant Costs

Costs to maintain its various IT systems currently represent nearly one-third of Agricorp's annual expenditures, compared to 20% in 2007. In addition, one-quarter of Agricorp's staff currently work in the IT division, compared to 11% in 2007.

Agricorp advised us that the increase in IT costs can be attributed to rising costs to maintain its aging systems as well as additional costs related to:

- full-time-equivalent staff to perform system testing and develop software architecture;
- software, hardware, licensing and printing costs; and
- the addition of the Ontario Risk Management Program in 2011.

The various systems were built for each particular program, and some of the secondary systems perform specific functions, such as collecting rainfall data and calculating yields. Because the individual systems were built with specific functionality required to deliver each program, this lack of flexibility required Agricorp to develop a new system to deliver the Ontario Risk Management Program for livestock farmers. Agricorp spent $6 million on this new system, including the cost of a dozen staff or consultants to supplement existing staff.

Cost and Time to Complete IT Renewal Unknown

Agricorp identified the need to replace its IT systems in 2005, and again in 2007. The five-phase IT renewal plan estimated that the project would be completed within five years, but did not include an estimate of total project cost.

In 2010, Agricorp revised its plan and requested funding for only three of the five phases. Phase One of the revised plan involved development of common farmer and farm-data components (for example, a unique Agricorp identifier for each farmer), to be used across all systems. This phase took two years to complete. However, the unique identifier can currently be used only for the three programs administered by Agricorp, and not for any others.

Agricorp recently received approval for Phase Two, to replace its 25-year-old Production Insurance system, which will take an estimated three years and $10.4 million to complete.

Agricorp has not prepared an implementation plan to replace Zephyr, which, Agricorp stated, was "inadequate, unstable, inefficient, and outdated" even in 2007. At the time of our audit, Agricorp had not determined the total cost and time to complete its IT renewal project.

RECOMMENDATION 12

To ensure that its IT renewal project is completed in a timely manner, we recommend that Agricorp work with the Ministry of Agriculture, Food and Rural Affairs to formally determine the funding and timelines for its IT renewal project and seek the necessary approvals to complete all phases of the project.

AGRICORP RESPONSE

Agricorp agrees with the Auditor General's recommendation and has initiated work to modernize capabilities to deliver Production Insurance. The Ministry of Agriculture, Food and Rural Affairs and Agriculture and Agri-Food Canada have recently approved funding for this work and have established governance to monitor the implementation which is expected to be complete in 2021.

Agricorp will present an inventory of applications and risks associated with each aging system to the Agricorp Board's Finance and Audit Committee beginning in 2018. This will then inform the development of application renewal timelines and funding needs.

4.6 Agricorp's Board Did Not Receive Documented Briefings from Management on the Results of Program Audits

Agricorp is governed by a board of directors accountable to the Minister of Agriculture, Food and Rural Affairs. There was no documented evidence that Agricorp's board received information on instances of farmers found to provide false or misleading information to Agricorp. For example, in 2015, Agricorp senior management engaged the Ontario Internal Audit Division's Forensic Investigation Team to review and provide a "second opinion" on the results of several audits conducted by Agricorp's program audit group in 2014. The results of Agricorp's audit are described in **Figure 12** (Joint-Venture Arrangements).

The Forensic Team agreed with the conclusions of Agricorp's audit group, and also identified possible issues such as the inappropriate reporting of tax, creating fictitious documents and conspiring with investors. Despite such significant findings, there was no evidence of Agricorp senior management informing the board of the outcome of the review.

We also raised concerns with Agricorp's senior management about the actions it took in response to the findings. While five farmers involved in the joint-venture arrangements were not allowed to participate in AgriStability and the Ontario Risk Management Program (Program) for two years as a result of the audit, the main participant in the various arrangements (Farmer A in **Figure 12**) was

allowed to continue participating in the programs. According to Agricorp, Farmer A was allowed to participate in the programs because he had not provided false or misleading information directly to Agricorp; he had merely provided the other farmers with fictitious documents, which those farmers then provided to Agricorp. However, the Forensic Team's report found that Farmer A did provide false information directly to Agricorp. Specifically, Farmer A indicated in his own application that he was not in any joint-venture agreement when, in fact, he actually was in one. As of 2016, Farmer A had still not indicated in this Program application that he is in any joint-venture arrangements.

In addition, prior to our audit, the board was unaware of the activities and findings of Agricorp's program audit group. As discussed in **Section 4.4.1** above, the group audits a sample of files and validates information reported by farmers by requesting supporting documentation or conducting on-site visits. This is done to determine whether farmers are eligible for payments received, and whether payment amounts are correct.

The group produces an annual report summarizing its findings and, based on those findings, makes recommendations to improve Agricorp's processes. The audits have identified instances in which farmers received inaccurate payments because they submitted incorrect or false information to Agricorp. We found that the group only reports to Agricorp's Chief Financial Officer and an internal committee, and not to the board or its Finance and Audit Committee. Agricorp did not take action on recommendations from the audits until 2016. Some of the recommendations include further clarifying the livestock ownership rules for the Ontario Risk Management Program and AgriStability, and improving the AgriStability review process so that payment applications by owners of related farming operations are evaluated consistently.

Governance best practices dictate that an organization's board of directors must be aware of significant risks that may impact the organization's operations. These best practices also dictate that, for an organization's program audit function to remain independent, it must have a reporting relationship with the board or one of its committees.

RECOMMENDATION 13

To ensure that Agricorp's board of directors is fully informed about significant risks that affect Agricorp's delivery of farm-support programs, we recommend that Agricorp's program audit group report regularly to the board regarding its annual audit plan, its audit findings, and the implications of such findings for Agricorp's delivery of farm-support programs.

AGRICORP RESPONSE

Agricorp management agrees with the Auditor General's recommendation to further enhance documentation provided to the Board of Directors. Beginning in 2018, trends and risks identified by the Agricorp program audit group will be added to the current practices of program compliance and legal reviews at the Board. Methods to maintain confidentiality of customer information, consistent with privacy legislation, will be considered for the additional documentation provided to the Board.

Within the Board's continuous improvement activities, the annual governance review will seek a more transparent and systematic approach to document and review sensitive files instead of the current verbal or in-camera approach.

Although Agricorp reports to both the Board and the Ministry on a regular basis, it will determine how best to communicate more time-sensitive customer issues or trends that are identified through program audit and other channels.

4.7 Impact of Programs Not Fully Known or Measured

The goal of the 2013-18 *Growing Forward 2 Framework* (Framework) is to "achieve a profitable,

sustainable, competitive and innovative industry." From 2013 to 2017, the Ministry has spent $1.06 billion on farm-support programs, and has either budgeted or committed another $275 million until 2018. While the Ministry and federal government have established measures for individual programs, they cannot demonstrate how the programs, which represent a significant investment, have contributed to the Framework's goal.

4.7.1 Little Incentive for Farmers to Be Innovative

The OECD states that facilitating innovative practices (such as research and development activities to improve productivity, develop or improve farm practices, or increase efficiencies), which the Framework tries to achieve through the Strategic Initiatives program, would help improve the agriculture sector's competitiveness and sustainability.

Under the Framework, the Ministry increased funding allocations for the Strategic Initiatives program by 50% from the previous framework. For the five-year period from 2013 to 2018, the Ministry committed to providing $182 million in funding for the Strategic Initiatives program, compared to $120.8 million in the previous five years. Despite this, however, funding for projects to encourage innovation represents only 15% of total farm-support payments in the last five years.

We wanted to know if this level of funding for innovation is sufficient, so we reviewed the OECD's analysis of countries' spending on "agricultural knowledge and innovation." The OECD defines this type of spending as that which finances, for example, research and development activities related to agriculture, and training and advice to farmers. We found that Canada ranked 12th out of 25 jurisdictions in terms of spending as a percentage of its gross domestic product.

As a result of limited funding for Strategic Initiatives, there have been instances in which farmers were denied funding some years for projects ranked superior to others that received funding in other years, when there were fewer applications. In fact, we found that one-fifth of eligible projects that were denied funding in the last four years actually scored higher than half of the projects that actually received funding in other years.

This happens because the Ministry allocates a pre-determined amount each year for Strategic Initiatives, so the minimum score that applicants must get to receive funding fluctuates depending on the number of applications received in a given year. In the last four years, the minimum score for approval has ranged from as low as 20 out of 100 to as high as 87 out of 100.

The OECD noted that this approach does not encourage farmers to develop proactive risk-management strategies, which would help achieve Framework goals.

4.7.2 Existing Measures Not Tied to Program Goals

The Ministry and Agricorp have established a number of performance measures for the various farm-support programs. Under the Framework, the Ministry must also submit information to Agriculture Canada regarding Production Insurance, AgriStability, AgriInvest and the cost-sharing program for strategic initiatives. While there are some outcome-based measures, most measures are based on program-specific outputs, such as the number of participants, amount of payments, and administrative costs, which are not tied to the goals of the Framework. For example, Ministry internal documents indicate that performance measures for AgriInvest are "weak and do not show value for money. There are significant funds built up and no financial health triggers [for withdrawal]."

In addition, only some measures for business-risk-management programs are publicly-reported in Agricorp's annual report (see **Appendix 7**). As a result, the public and other decision-makers cannot determine whether the various farm-support programs are helping farmers manage their risks.

We raised similar observations in our *2008 Special Report* on Agricorp's delivery of farm-support programs, and recommended that the Ministry measure the extent to which programs help farmers remain financially secure. At the time of our audit, neither the Ministry nor Agricorp has put such measures in place for business-risk-management programs.

In 2013, the Ministry began developing outcome-based performance measures and collecting data for the strategic initiatives program by asking farmers to complete a survey form at the completion of their project. Depending on the nature of the project, farmers may be asked, for example, whether the funds helped them access a new market for their commodity or helped reduce their farm's environmental impact. Select results of the survey are reported on the Ministry's website. These include, for example, the percentage of farmers who stated that the project improved their productivity and/or their ability to adapt to climate change, or reduced the risk they posed to the environment. The Ministry informed us that further work is needed to establish more concrete program goals, set targets, and more accurately analyze farmers' responses.

Programs Evaluated Independently of Each Other

According to the Framework, the programs are intended to work together to provide a comprehensive system of support, but the performance measures are specific to each program. While the Ministry does measure the number of AgriInvest participants who also participate in AgriStability, neither the Ministry nor Agricorp have established indicators to measure how well (or even if) the programs complement each other to achieve the Ministry's overall goal for farm-support programs.

The Ministry and Agricorp have also conducted a number of program reviews in the last five years, but each review focused on individual programs rather than the entire suite of programs.

Even if the Ministry or Agricorp were to develop indicators to measure the effectiveness of the entire suite of programs, it would be challenging given how the programs are delivered. Specifically, the Ministry would have to collect information from the four organizations that deliver farm-support programs—Agricorp; Agriculture and Agri-Food Canada; the Ontario Soil and Crop Improvement Association; and the Ministry itself—and then would need a way to identify farms across the various programs. Although Agricorp has recently implemented a new system that assigns a unique farm identifier for the three programs it delivers, the other three organizations do not use this identifier and hence cannot collect the necessary information.

Ministry's Analysis of Impact Is Incomplete and Contradicts Available Evidence

In 2016, the Ministry's review of the Ontario Risk Management Program (Program) could not determine whether it had achieved the desired outcomes or provided a positive return on investment for taxpayer dollars. The review also found that payments did not stabilize farm income. In addition, the Ministry found that "there is no credible evidence to substantiate the claim that the Program contributes to increased agricultural sector investment."

In response to the 2016 review, the Ministry, as part of its 2016/17 business-planning process, analyzed the extent to which participants in AgriStability and the Program feel confident enough to invest in their farms. The analysis indicated that farmers who regularly participate in AgriStability and the Program are twice as confident about investing in their farms as those who do not.

However, the Ministry's findings are incomplete because the analysis:

- did not evaluate the impact of other business-risk-management programs such as Production Insurance and AgriInvest; and
- used information on farmers who only participate in AgriInvest and one-time programs to represent farmers who do not

participate in any farm-support programs. This is because the Ministry has no information on farmers who do not participate in farm-support programs.

We also found conflicting evidence, indicating that further work is needed. For example, Agricorp's 2017 survey of farmers shows that 58% and 65% of respondents indicated that AgriStability and the Program, respectively, helped them to have the confidence to invest in business improvements. However, these results are inconsistent with the following:

- A February 2016 report by the Canadian Federation of Agriculture stated that farmers' confidence in the current suite of business-risk-management programs has eroded, and called for significant amendments to restore confidence.
- A 2014 survey by the Ontario Federation of Agriculture indicated that 69% of respondents did not feel that current business-risk-management programs met their needs. That represents an improvement over the 88% reported in the 2010 survey, but still remains high.
- Our survey of farmers indicated that only 24% believed that AgriStability was effective in helping them manage their risks, and only 35% believed that the Program was effective. In fact, of the four business-risk-management programs, AgriStability and the Program had the lowest "satisfaction ratings."

RECOMMENDATION 14

To ensure that performance indicators are tied to overall goals, we recommend that the Ministry of Agriculture, Food and Rural Affairs work with Agriculture and Agri-Food Canada, Agricorp and the Ontario Soil and Crop Improvement Association to:

- review and make necessary changes to its performance indicators to ensure that they are tied to overall program goals; and
- regularly collect and analyze information about the impact of support programs on Ontario farms to help adjust programs on an ongoing basis.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation.

As part of the Federal-Provincial-Territorial (FPT) business-risk-management (BRM) review, the Ministry will work with its FPT partners to gather information from other jurisdictions across Canada and internationally to identify best practices and options for advancing the current measurement of overall program performance.

The Ministry will work with Agriculture and Agri-Food Canada, Agricorp, and the Ontario Soil and Crop Improvement Association to review and implement opportunities to better measure and analyze the collective impact across the suite of programs in Ontario.

Appendix 1: Selected Key Agricultural Stakeholders and Organizations

Prepared by the Office of the Auditor General of Ontario
(Note: this list is not exhaustive)

Agriculture and Agri-Food Canada

The federal Agriculture and Agri-Food Canada ministry works with farmers and food producers to support the growth and development of the agriculture and agri-food sector. It achieves this through research and by developing policies and programs that aim to help farmers and food processors succeed in Canada and abroad.

Agriculture, Food and Rural Affairs Appeal Tribunal (Tribunal)

The Tribunal adjudicates appeals of decisions made by the Ministry of Agriculture, Food and Rural Affairs. It seeks to provide fair and impartial hearings and decisions for individuals appealing a ministry direction, policy, order or decision, or for those who require resolution of a dispute related to legislation that falls within the Tribunal's mandate.

Business Risk Management Review Committee (Committee)

The Committee is composed of representatives from industry appointed by the Minister of Agriculture, Food and Rural Affairs. It hears appeals of Agricorp decisions and issues non-binding recommendations that Agricorp can accept fully or in part, or not at all.

Commodity Groups

Commodity groups conduct research and advocacy on behalf of their members on issues of importance to their industry. They include:

- Beef Farmers of Ontario;
- Dairy Farmers of Ontario;
- Grain Farmers of Ontario;
- Ontario Fruit and Vegetable Growers' Association;
- Ontario Pork;
- Ontario Sheep Marketing Agency; and
- Veal Farmers of Ontario.

Ontario Federation of Agriculture

The Ontario Federation of Agriculture is the largest voluntary farm organization in Canada, representing over 36,000 farm businesses across Ontario. It has 31 member-organizations, including Beef Farmers of Ontario, Dairy Farmers of Ontario, and Ontario Fruit and Vegetable Growers' Association, that account for many of the commodities produced in this province.

Ontario Soil and Crop Improvement Association (Association)

The Association was formed in 1939 as a grassroots organization to disseminate to farmers the results of agricultural research by the University of Guelph. The Association also administers programs under contracts with the Ontario Ministry of Agriculture, Food and Rural Affairs, the Agricultural Adaptation Council, the Ontario Ministry of Natural Resources and Forestry, Environment Canada, and other agencies.

Currently, the Association is responsible for delivering the 2013-18 *Growing Forward 2* strategic initiative programs for farmers (see **Section 2.4**), including determining eligibility for funding.

Organisation for Economic Co-operation and Development (OECD)

The OECD promotes policies to improve the economic and social well-being of the world's population by providing a forum in which governments can pursue solutions to common problems. Through research and analyses, the OECD also works with governments to understand economic, social, and environmental change in order to recommend policies designed to improve quality of life around the world.

Appendix 2: Reviews and Appeals, 2011–2016

Prepared by the Office of the Auditor General of Ontario

Program		# of Files Received	# of Files With Changes Made	$ Value of Changes Made
Production Insurance	Internal Review Committee	22	4	80,000
	Agriculture, Food and Rural Affairs Appeal Tribunal	4	2	165,000
AgriStability	Amendment request	794	764	6,835,000
	Business Risk Management Review Committee	44	11	1,012,000
Ontario Risk Management Program	Amendment request	unknown*	unknown*	unknown*
	Business Risk Management Review Committee	5	1	37,000

* Not tracked by Agricorp.

Appendix 3: One-Time Farm Support Programs in Ontario, 2007–2017

Prepared by the Office of the Auditor General of Ontario

Year	Program Name	Objective	Total Payments ($)[1]	# of Recipients
Programs Funded Jointly by the Federal and Ontario Governments				
2013	Canada-Ontario Apple and Tender Fruit Weather Risk Mitigation Strategy Initiative	To support apple and tender-fruit[2] growers to develop a weather-risk-mitigation strategy.	1.7 million	469
2012	Canada-Ontario Forage and Livestock Transportation Assistance Initiative	To help Ontario livestock farmers recover from the effects of the 2012 drought.	271,000	63
2010/11	Ontario-Tornado Assistance Initiative	To help fruit-tree orchards in the Georgian Bay area recover from a 2009 tornado.	572,000	13
2008/09	Ontario Duponchelia Assistance Program	To help farmers in the Niagara region affected by duponchelia, a moth-like pest.	1.6 million	4
Programs Funded Solely by the Ontario Government				
2014/15 and 2015/16	Beekeepers Financial Assistance Program[3]	To assist eligible beekeepers who experienced an increase in the mortality rate of their beehives.	5.4 million	311
2007/08	Ontario Cattle, Hog and Horticulture Payment	To mitigate the effects on farmers of the strong Canadian dollar and lower market prices.	139 million	13,529
2007	Ontario Cost Recognition Top-Up	To match federal contributions under a program to mitigate rising production costs over the previous few years.	50.5 million	37,108
2007	Grape Juice Grape Transition Program	To help farmers transition out of grape-growing following the closure of grape-juice factories in Ontario.	2.8 million	135
2007	Beekeepers Assistance	To provide direct compensation to beekeepers who suffered higher-than-normal losses during the intensely cold winter of 2007.	2.6 million	558
Total			**204.4 million**	

1. Represents total payments to farmers from both federal and provincial governments.
2. Tender fruit includes apricots, nectarines, peaches, pears, plums and cherries.
3. Replaced by a permanent Bee Mortality Production Insurance plan in 2016.

Appendix 4: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	The Ministry/Agricorp have complete, accurate, relevant and timely information on farmers, and the agriculture sector in Ontario as a whole, to appropriately inform the design and delivery of farm-support programs. Current best practices are also used in this regard.
2.	Farm-support programs have eligibility criteria that are clearly communicated to stakeholders. The criteria are consistently and objectively assessed by qualified staff in a timely manner in the delivery of programs.
3.	Procedures are in place to ensure eligible farmers receive accurate and timely payments, and pay premiums and fees, in accordance with program requirements.
4.	Performance measures and targets are established for farm-support programs, and monitored and compared against actual results, to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.
5.	Roles, responsibilities, and accountability requirements for the delivery of farm-support programs are clearly defined to ensure compliance with legislation, policies, and program requirements.
6.	Information systems used to deliver farm support programs: a) facilitate accurate and timely calculation of amounts due to and from farmers; and b) provide complete, accurate and timely information to facilitate performance measurement.

Appendix 5: Results of Ontario Farm Support Programs Survey, July 2017

Prepared by the Office of the Auditor General of Ontario

In July 2017, we conducted a survey of Ontario farmers with the support of the Ontario Federation of Agriculture. The survey was distributed to close to 20,000 farmers in Ontario. We received 930 responses. However, response rates for individual questions vary. According to the Ontario Federation of Agriculture, the typical response rate for their surveys is between 800 and 900.

Demographics of Survey Respondents

We received responses from farmers in 49 different counties across Ontario.

	# Who Indicated This as a Commodity They Produce	As a % of Respondents[1]
Grains and oilseeds	442	48
Cattle	184	20
Horticulture	120	13
Poultry	52	6
Dairy	47	5
Sheep	33	4
Hog	25	3
Veal	3	0
Other[2]	167	18
Total	**1,073**	**930 Respondents**

1. Percentages do not add up to 100 because farmers were able to list multiple commodities.
2. Includes hay, grapes, bees, goats, maple syrup, etc.

Farm Gross Revenue	# of Respondents	As a % of Respondents
Gross revenues of less than $10,000	49	7
Gross revenues of $10,000–$99,999	267	37
Gross revenues of $100,000–$249,999	143	20
Gross revenues of $250,000–$499,999	87	12
Gross revenues of $500,000 or more	169	24
Total # of Respondents	**715**	**100**

Participation in programs during the five years from 2011–2016

	1 or 2 Years (%)	3 Years (%)	4 or 5 Years (%)	Did Not Participate (%)	Reasons Provided for Little or No Participation	# of Responses
Production Insurance	1	3	52	43	• Program does not meet farm's needs • Premiums/fees are too high compared to potential benefits • Other (e.g., no coverage for livestock, decided to self-insure)	**637**
AgriStability	2	7	50	41	• Program does not meet farm's needs • Premiums/fees are too high compared to potential benefits • Other (e.g., too complicated, accountant fees too high, not helpful for new farmer)	**636**
AgriInvest	1	4	63	31	• Other (e.g., farm income too low) • Program does not meet farm's needs • Not aware of the program	**635**
Ontario Risk Management Program	4	2	38	56	• Not aware of the program • Program does not meet farm's needs • Heard of the program, but do not know how it works	**632**
Strategic Initiatives	8	8	9	75	• Program does not meet farm's needs • Not aware of the program • Heard of the program, but do not know how it works	**632**

Are the programs effective in helping you manage risks in your farming operation?

	Yes (%)	No (%)	Uncertain (%)	Total Respondents
Production Insurance	53	26	21	**450**
AgriStability	24	44	32	**450**
AgriInvest	54	19	26	**450**
Ontario Risk Management Program	35	28	37	**449**
Strategic Initiatives	22	29	48	**449**

Selected Comments:

On why AgriInvest does not help manage risks: *"AgriInvest is a reward support based on a small fraction of margin. In other words, the better the year's margin is, the more dollars are matched by the government and accumulated in your account. A rainy day fund so to speak."*

On why AgriStability does not help manage risks: *"Even when we lost 80% of our crop, we did not qualify for a payment."*

On why Strategic Initiatives does not help manage risks: *"Even with a solid application, we have been turned down because the program ran out of money."*

"Some projects approved and some growers were rejected for the same projects."

How have you used the support you received from the following programs?

	#1 Use of Funds	#2 Use of Funds	#3 Use of Funds	Other Uses	Total Respondents
Production Insurance	Stabilize my farm income (47%)	Reinvested in my farm operation (31%)	Reduce debt or held the funds to improve liquidity (15%)	• Secured credit for my farm operation • Avoid bankruptcy • Pay bills	**218**
AgriStability	Stabilize my farm income (39%)	Reinvested in my farm operation (35%)	Reduce debt or held the funds to improve liquidity (19%)		**155**
AgriInvest	Reinvested in my farm operation (47%)	Reduce debt or held the funds to improve liquidity (24%)	Stabilize my farm income (20%)		**293**
Ontario Risk Management Program	Stabilize my farm income (42%)	Reinvested in my farm operation (41%)	Reduce debt or held the funds to improve liquidity (14%)		**187**

Top Focus Areas for Government Support for Strategic Initiatives (in order of importance to farmers)

1. Improve energy efficiency;
2. Improve labour productivity, including automation;
3. Implement best management practices to protect soil, water and wildlife;
4. Mitigate weather-related risks;
5. Implement best-nutrient management practices;
6. Implement food-safety programs, including equipment and facility upgrade;
7. Expand existing markets or access new/emerging markets;
8. Reduce biosecurity risks; and
9. Other (e.g., better access to credit, on-farm technology, improved access to Internet).

Are the programs sufficient to help your farm remain viable through a natural disaster or market crisis?

	Yes (%)	No (%)	Uncertain (%)
Production Insurance	36	33	30
AgriStability	18	49	33
AgriInvest	29	40	30
Ontario Risk Management Program	29	40	30

Selected Comments:

On AgriInvest: *"Our AgriInvest balance is around $83,000.00 and that does not even come close to paying any expenses should we be wiped out one year. We would need approx. $150,000.00 or more – so we are hoping that nothing terrible happens before we have funds in place. It happened to us in 1992 and we took a long time to come back despite having crop insurance, etc."*

On AgriStability: *"AgriStability margin calculations simply can never work for diversified multiple crop G&O, especially if high maintenance costs for using older equipment are not allowed in the margin calculation. 70% coverage of a neutered margin calculation, to be blunt, becomes more like a 50% disaster margin. Not much 'price' insurance there."*

On AgriStability: *"Too much time passes to handle the crises (drought, flooding, etc.): file the taxes, wait for the taxes to come back, do the application, and wait for the review."*

Has the Ministry, Agricorp, or the Ontario Soil and Crop Improvement Association (OSCIA) visited your farm in the last five years?

	Agricorp (%)	Ministry (%)	OSCIA (%)	Yes, But Not Sure Who (%)	No (%)	Can't Recall (%)	Total Respondents
Yes	26	9	5	1	53	5	**591**

Site visits may be unrelated to business risk management programs. The reasons provided for the visits include the following:

Reasons for Visits	% of Respondents
Crop or yield inspection in relation to a Production Insurance claim	**66**
Outreach to provide support about available programs	**13**
To inspect farm records such as invoices and receipts as part of an Agricorp audit of benefit payments	**9**
Other (e.g., licensing for other programs, industry tour for Ministry staff)	**8**
Can't recall why	**4**
Total Respondents	**216**

Producer Suggestions on Areas of Improvement for Farm Support Programs

Program	Top Suggestions
Production Insurance	• Adjust average farm yields for areas with severe weather • Use updated market values • Use a calculated average similar to AgriStability
AgriStability	• Improve communication to farmers and simplify calculation • Improve timeliness and make processing faster • Increase level of support • Give farmers a choice on coverage levels and increase premiums where necessary • Make payments predictable • Merge AgriStability and Production Insurance • Cancel the program
AgriInvest	• Increase government contribution rate • Allow inclusion of custom feeding income on Statement A
Ontario Risk Management Program	• Eliminate caps • Get federal government support • Combine with AgriStability or Production Insurance • Streamline with tax information
Strategic Initiatives	• Increase funding • Provide more information on programs • Eliminate environmental farm plan requirement • Increase transparency and equity of project selection

Selected Comments:

On effectiveness of AgriStability: *"Eliminate this program and put more funding towards Production Insurance, Ontario Risk Management Program, and AgriInvest."*

On timeliness of AgriStability: *"In a growing season (like 2017 so far), where many farmers have lost in the range of 30-80% of their crops due to too much rain, fast-tracking the payments to the farmers would be helpful in being able to keep paying the bills."*

On effectiveness of AgriInvest: *"Best program out there if you have the money to invest."*

On delivery of Ontario Risk Management Program: *"Provide more support to farmers on how to properly complete paper work."*

On effectiveness of Strategic Initiatives: *"Provide the program with a proper budget."*

Appendix 6: Ontario Cattle, Hog and Horticulture Payment Program, 2008

Prepared by the Office of the Auditor General of Ontario

About the Program

Work began on the Ontario Cattle, Hog and Horticulture Payment program (OCHHP) in 2007 with the intention of paying support to farmers in 2008 following large financial losses in the cattle, hog and horticultural sectors. These losses resulted from poor market conditions that included:

- a strong Canadian dollar;
- high supply costs;
- ongoing restructuring in the Ontario pork- and beef-processing sectors; and
- new processing and export requirements for cattle farmers in response to the mad-cow-disease crisis.

Program Problems

The main criticism of OCHHP was that its design and delivery had been rushed, and that the Ministry relied on an incomplete or outdated database to calculate and distribute payments. As a result, the Ministry may have missed farmers who needed financial support and/or provided payments to those who no longer needed them because they had downsized or left the sector altogether.

Eligibility Criteria

Only farmers who had at least 50% of their sales from cattle, hogs, or horticulture in 2005/06, and who received payments through an earlier federal-government program were eligible for OCHHP payments. Those participating in the predecessor program to AgriStability in 2004 were automatically enrolled. Others had until September 2007 to apply for the federal program. Those who had not applied to the earlier federal-government program before September 2007 (three months before OCHHP was to come into effect) were also ineligible.

Payment Calculation

Payments were based on each farmer's net sales from 2000 to 2004. For new farmers (those with no sales in 2005), sales data from 2005/06 was used. For all other farmers, sales data from 2000/04 was used.

What our Audit Found

- **Short timeframe to design and deliver the program:** In late November 2007, the Minister directed staff to prepare a submission to address farmers' immediate cash-flow needs. The Ministry had just over two weeks to establish eligibility criteria and determine how program payments would be calculated. The Minister also requested funds be distributed no later than the end of March 2008. OCHHP was announced in the Fall Economic Statement in mid-December 2007.

- **Eligibility criteria not consistent with program objective:** As stated in the government's news release, the funding was intended to help farmers "deal with the immediate challenges presented by current economic conditions and the long-term impacts of BSE [mad cow disease]." However, in order to deliver the funds as quickly as possible, the Ministry used information from another federal-provincial one-time program that was largely based on income data from 2000 to 2004 to determine eligibility and calculate payments. As a result of the eligibility criteria, new farmers who started in 2007 were ineligible for payments. As well, any changes or expansions to existing farm operations after 2004 were not considered in the payment calculations. In addition, people who had left farming received money under OCHHP; our analysis indicates a total of $1.4 million was paid to 20 producers who at the time were either not living, or not farming, in Ontario.
- **Ministry staff raised concerns about eligibility criteria and basis of calculation prior to program implementation:** Ministry staff raised concerns that some farmers may be missed or that the program may not meet the current needs of producers.
- **Subsequent Ministry analysis confirmed earlier concerns:** A 2013 analysis by the Ministry found 1,350 farmers who would have received payments if eligibility had been based on 2007 income instead of the eligibility criteria used for the program. The analysis estimated that if payments were based on 2007 figures, these farmers would have received an average of $18,800 each, and total payments would have been $25.5 million. The Ministry also identified two categories of farmers who received no payments, or what they might perceive to be insufficient payments (based on their circumstances in 2007): more than 7,200 farmers who expanded their operations and, of those, over 1,500 who began farming between 2005 and 2007.

Appendix 7: Publicly-Reported Performance Indicators for Farm-Support Programs

Prepared by the Office of the Auditor General of Ontario

	What it Measures	Performance Measure and Target	2015/16 Results
Production Insurance	Timeliness of payments	Process claims within 20 business days of receiving all required information	Average time to process claims in 2015/16 = 7.2 days
	Accuracy of payments	2% or less error rate[1]	Error rate = 0%
	Farmer satisfaction	Satisfaction rating of at least 3.5 (out of 5)	Satisfaction rating = 4.31 in 2016 survey
AgriStability	Timeliness of payments	Process 75% of applications within 75 days of receiving all required information	77% of applications processed within 75 days of receiving all required information
		Process 95% of applications by November 30th	95% of applications processed by November 26th
	Accuracy of payments	2% reduction in the number of amendment requests	38% reduction
	Farmer satisfaction	Satisfaction rating of at least 3.5 (out of 5)	Satisfaction rating = 3.83 in 2016 survey
Ontario Risk Management Program	Timeliness of payments	Process 95% of applications within 60 days of receiving all required information	99% of applications processed within 60 days of receiving all required information
	Accuracy of payments	2% or less error rate[2]	Error rate = 0%
	Farmer satisfaction	Satisfaction rating of at least 3.5 (out of 5)	Satisfaction rating = 4.10 in 2016 survey

1. Calculated using dollar-unit sampling reviews. At each $400,000 payment increment, a review of the last payment is performed. The number of reviews performed each year varies depending on the total dollar value of the payments. For example, an $80-million payment year would result in 200 reviews.
2. Calculated based on a review of a sample of payments. In 2016, 1,629 payments were reviewed.

Ministry of Energy

Independent Electricity System Operator—Market Oversight and Cybersecurity

1.0 Summary

The Independent Electricity System Operator (IESO) operates the wholesale electricity market (electricity market). This includes receiving competitive price offers from power generators and electricity importers to supply electricity.

Ontario power generators generally set their offers in order to recover their marginal costs for producing electricity (i.e., the costs of the fuel (gas), labour used and other variable costs). At the same time, the IESO receives bids from a small number of large industrial consumers and out-of-province electricity importers indicating how much electricity they are willing to consume and at what price. The IESO chooses the power generators with the lowest-price offers to supply the electricity needed to meet consumer demand. A new market clearing price for electricity is set every five minutes, and the average of the 12 prices set per hour is the Hourly Ontario Energy Price charged to consumers.

Since 2015, the IESO has also been responsible for long-term planning for electricity and procuring the generation capacity Ontario needs. Procurement is done through signing contracts with electricity power generators. These contracts provide guaranteed payments that compensate generators for building generation equipment (for example, nuclear and gas plants) and maintaining it.

Responsibility for oversight of the electricity market is shared by the Ontario Energy Board (OEB) and the IESO as follows:

- The IESO is responsible for fixing weaknesses and flaws in the design of the market. The **IESO's Market Assessment and Compliance Division (IESO Oversight Division)** monitors and investigates suspicious activity by market participants signalling they may be breaking market rules, and fines rule-breakers. (Market rules originate in the *Electricity Act, 1998*, and are intended to ensure that the wholesale sale and purchase of electricity and ancillary services are efficient, competitive and reliable. They include provisions for making the rules; conveying electricity through the grid; authorizing who can participate in the market; selling, purchasing and dispatching electricity; resolving disputes; and monitoring, surveilling and investigating the activities and conduct of market participants.)
- The OEB reviews the ratepayer impact assessment that the IESO provides before the IESO implements a change to the design of the market. The OEB can revoke any market rule

change and ask the IESO Board to further review or reconsider the change if the OEB considers that the change does not meet any of the criteria of the *Electricity Act, 1998*, which includes, among other things, considerations of the public interest and impact on ratepayers. The **Ontario Energy Board's Market Surveillance Panel (OEB Panel)** monitors the market operated by the IESO, and investigates and reports on ways that the market is vulnerable to being abused by market participants because of weaknesses and flaws in its design.

We found that the OEB Panel has been effective in monitoring and reporting inappropriate market conduct, and recommending that the IESO fix problems with the market design. However, our audit also found that the Ontario Energy Board itself could have done more to protect ratepayers' interests by attempting to address the IESO's lack of action on the OEB Panel's repeated recommendations to fix certain weaknesses and flaws in the design of Ontario's electricity market.

As well, we noted that the IESO has a Market Renewal Initiative that consists of a working group helping to determine the future design of the electricity market in Ontario. In addition to there being little representation for residential ratepayers' interests in the working group, it has membership from market participants that have been, or are being, investigated for benefitting financially from existing market design problems.

Further, we found that the government has several times broadened participation in the Industrial Conservation Initiative (ICI), a program that allows industrial ratepayers to reduce their electricity charges by shifting their global adjustment costs to residential and small-business ratepayers. The OEB Panel reported on the impact of the ICI shortly after it was launched in January 2011. Electricity prices for about 65 large industrial ratepayers decreased by about 13%. In the first 10 months of the ICI, their global adjustment charge was reduced by about $245 million. This $245 million was added to the electricity bills of residential and small-business ratepayers. Since the initial launch, the ICI was further expanded three times, shifting a larger amount of global adjustment charge from large industrial ratepayers to residential and small-business ratepayers.

We also audited how well the IESO protects its critical IT assets and infrastructure, and found the IESO's cybersecurity system complies with power grid reliability standards. However, the IESO could be better equipped to defend itself from an advanced cyberattack should one occur.

Our specific findings include:

- **The Ontario Energy Board could have done more to protect ratepayers' interests.** Before the IESO Board implements changes to the market rules, it must give the Ontario Energy Board an assessment of the impact that approved changes have on ratepayers. If the Ontario Energy Board deems that changes are not in the ratepayers' interest, it can revoke the changes and ask the IESO for further consideration. The Ontario Energy Board could have, but has never, taken this action to challenge the IESO's lack of action on the OEB Panel's recommendations to fix problems with market design. This is especially the case for the Panel's recommendations for two programs, as follows:
  - In 2010, 2011, 2014, 2015 and 2016, the OEB Panel recommended that the Real-Time Generation Cost Guarantee Program (shortened in this report to the **Standby Cost Recovery Program**) be reviewed, reassessed, justified, and scaled back.
  - In almost all of its 28 reports (completed between 2002 and 2017), the OEB Panel expressed concerns about the Congestion Management Settlement Credits (shortened in this report to the **Lost Profit Recovery Program**).

The IESO's lack of action has resulted in gas and previous coal generators, as well as industrial consumers, receiving in many cases excessive payments

from these programs, including some from misusing market rules.

- **The IESO continues to pay gas generators about $30 million more per year than necessary despite the OEB Panel recommending that the IESO scale back its Standby Recovery Program.** Through the Standby Cost Recovery Program, the IESO pays generators for additional fuel, maintenance and operating costs to start and then operate their equipment while on standby to supply electricity. The IESO introduced the Standby Cost Recovery Program in 2003, at a time when electricity experts were concerned that Ontario was not prepared to meet its upcoming demands for electricity. Since then, Ontario has procured additional generation capacity, and, according to the OEB Panel, regularly finds itself in surplus power conditions and is a net exporter of electricity.

  OEB Panel reports in 2010 and 2011 recommended that the IESO revise (2010) and reassess (2011) whether the Standby Cost Recovery Program is providing any benefits for ratepayers, which the IESO did not do. A 2014 OEB Panel report recommended that the IESO provide detailed analysis to justify the need for the Program's continued existence, which the IESO did not provide.

  In 2015, the OEB Panel did its own detailed analysis of 2014 market data and reported that the Program was almost never needed (that is, it was relied on less than 1% of the time) to meet domestic demand, and less costly alternatives should be explored.

  Yet the Program continues—and furthermore, is inappropriately benefiting gas generators, as described in the next point.
- **Nine gas and coal generators claimed as much as $260 million in ineligible costs under the Standby Cost Recovery Program between 2006 and 2015.** About two-thirds of this amount ($168 million) has been recovered. Up until August 2017, the IESO's practice was to pay gas generators (and coal generators before they were completely shut down by 2014) for costs charged to the Standby Cost Recovery Program without first reviewing the claims. The OEB Panel was concerned that generators were submitting ineligible costs. In 2011, the Panel encouraged the IESO Oversight Division to audit the costs claimed by gas and coal generators. Nine of the 11 gas and coal generators registered with the Standby Cost Recovery Program at that time were audited. The audits identified almost $260 million (about 40%) in possible ineligible cost claims out of about $600 million paid out during the years that were audited. For example, generators claimed thousands of dollars annually for staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps, which have nothing to do with running power equipment on standby. The Oversight Division found that one generator claimed about $175,000 for coveralls and parkas at one facility over a two-year period.
- **The Standby Cost Recovery Program allows gas generators to operate their equipment inefficiently, costing ratepayers more than necessary.** By shutting down and then restarting their power equipment, gas generators become eligible to charge some of their costs to the Standby Cost Recovery Program. But if they run their equipment continuously, they cannot claim these costs. In reporting about payments that generators received under the Standby Cost Recovery Program as a result of shutting down and then restarting their equipment within a short period of time, the OEB Panel estimated that, in summer 2010, about $19 million in additional costs were incurred because of this practice, nearly all of which was charged to ratepayers.
- **The IESO continues to pay market participants through the Lost Profit Recovery Program despite repeated warnings from**

the OEB Panel that generators and large industrial consumers take advantage of the Program at ratepayers' expense. The Lost Profit Recovery Program, which had paid market participants a total of about $1.6 billion from 2002 to the end of 2016, was set up in 2002 as a temporary measure to compensate market participants and maintain power system reliability when the IESO intervened in the market to relieve congestion in transmission lines in such a way that companies would lose money. As the Program was being set up for the opening of the competitive market in 2002, the OEB Panel reported that market participants could misuse some aspects of this Program to receive payment for lost profits they did not actually incur.

Identifying and investigating specific market participants is time-consuming and challenging, and the OEB Panel has reported on only six investigations so far. The OEB Panel reported that, in three of these cases, companies have misused the Lost Profit Recovery Program. For example, during an eight-month period from January 2010 to August 2010, a pulp-and-paper company was paid $20.4 million ($10.6 million was subsequently recovered). The Panel has also been concerned about large payments totalling $500 million paid out to market participants in northwestern Ontario since the Program started.

The OEB Panel has repeatedly recommended that the IESO fix the problems with the design of this program. The IESO has fixed some problems, but the Program continues, and the OEB Panel remains concerned that the Program continues to be open to market participants being compensated for lost profits that they did not actually incur.

- **Market participants have significant influence over IESO changes to the market rules.** The IESO's Board is responsible for fixing market design problems. This involves approving changes to market rules that govern the Standby Cost Recovery Program. The OEB Panel reported in late 2016 that gas generators and others that have a direct and substantial financial interest in IESO programs like the Standby Cost Recovery Program influence the process that the IESO uses to change market rules. We reviewed the IESO's Technical Panel meeting minutes and found that the latest market rule changes to the Standby Cost Recovery Program, approved by the IESO Board in 2017, were influenced by gas generators and that these changes did not address the OEB Panel's recommendations to stop reimbursing gas generators for certain operating and maintenance costs.

  The IESO has undertaken a Market Renewal Initiative to prepare the province for the electricity system of the future. A 23-member working group is advising the IESO on important issues involving the future design of the electricity market. Some members of this group, nominated by the IESO, work for companies that have claimed ineligible costs under the Standby Cost Recovery Program, and have been investigated and were found to have financially benefited from market design problems related to the Lost Profit Recovery Program.

- **Three investigations by the IESO's Oversight Division uncovered significant problems resulting in over $30 million in fines and settlement recoveries. However, the Division has limited resources and lacks explicitly legislated investigative powers to do more and timelier work.** The Director of the IESO Oversight Division, appointed in 2011, has led the completion of three major investigations in the past three years. Each led to a sanction or settlement with the company involved, and total fines and recoveries that exceeded $30 million. However, at the time of our audit, there was only enough staff to

investigate just one of five cases that the Director identified to be in the same significant recovery/fine range as the last three investigations. Also, an average of 30% of the Division's employees have left each year since 2012 because about a third of the Division's staffing allocation is for temporary positions only.

The Oversight Division lacks explicit legislative authority to compel the production of information and evidence in the course of its investigations. This slows down and prevents it from obtaining all evidence it needs to determine the extent of a violation in order to apply the appropriate penalty.

- **The IESO Oversight Division is not fully independent in doing its job.** The Director of the IESO Oversight Division reports to the senior management of the IESO rather than to the independent Board. The Director of the Oversight Division is thus less independent than the IESO's Director of Internal Audit, who reports to the Board. In Alberta, the Market Surveillance Administrator is a corporation independent of Alberta's Electricity System Operator. In the United States, oversight of electricity markets is conducted by the Federal Energy Regulatory Commission, which is independent from market operators, like the IESO.
- **The government has been expanding the Industrial Conservation Initiative (ICI). This results in increasing the electricity charges for residential and small-business ratepayers while decreasing the electricity charges for large industrial ratepayers.** The ICI allows eligible large industrial ratepayers reductions in the amount of global adjustment they are charged monthly. The amount of the reduction is based on how much they lower their use of electricity during the five hours that electricity demand is at its highest each year. The OEB Panel reported on the impact of the ICI shortly after it was launched in January 2011. Electricity prices for 65 large industrial ratepayers decreased by about 13%. In the first 10 months of the ICI, their global adjustment charge was reduced by about $245 million. This $245 million was added to the electricity bills of residential and small-business ratepayers. Since the initial launch, the ICI was further expanded three times, shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers. The decrease in the global adjustment charges to ICI participants has been, and will continue to be, shifted to residential and small-business ratepayers, increasing their electricity charges. For example, since the ICI was launched in January 2011, electricity charges for residential and small-business ratepayers have almost doubled from about 7 cents per kilowatt hour (cents/kWh) to 12 cents/kWh, while electricity charges for large industrial ratepayers have decreased from about 7 cents/kWh to about 6 cents/kWh as of June 2017.
- **The IESO's cybersecurity system complies with power grid reliability standards, but improvements would help it better address the risks of cyberbreaches and cyberattacks.** The IESO could do more to improve its cybersecurity, such as creating a senior executive position dedicated to cybersecurity; increasing its cybersecurity staff; having an IT cybersecurity vendor on standby; procuring technology that monitors authorized users' access to confidential information to prevent and identify breaches; and encrypting its backup tapes.

This report contains 18 recommendations, consisting of 22 actions, to address our audit findings.

Overall Conclusion

Our audit concluded that the Ontario Energy Board's Market Surveillance Panel (OEB Panel) has been effective in monitoring and reporting

on inappropriate market conduct by market participants and recommending that the IESO fix problems with electricity market design. However, the IESO has not implemented some important recommendations of the OEB Panel directed at the Standby Cost Recovery and Lost Profit Recovery programs. Also, the Ontario Energy Board itself could have revoked the most recent changes to the Standby Recovery Program and asked the IESO to reconsider them, as these changes did not address some important recommendations of the OEB Panel.

The financial impact of the Industrial Conservation Initiative (ICI) on residential and small-business ratepayers is not transparent. The Ontario Energy Board Panel estimates that the ICI has been shifting global adjustment costs from large industrial users to residential and small-business ratepayers since 2011. With the ICI being broadened in January and July, 2017, this shift will increase.

While the IESO's cybersecurity system complies with the North American Electric Reliability Corporation power grid reliability standards, internal operational improvements would help it even better address the risks of cyberbreaches and cyberattacks.

2.0 Background

2.1 Ontario's Electricity Grid

An electricity grid is an interconnected network for delivering electricity from producers to consumers. It consists of generating stations that produce electrical power, high-voltage transmission lines that carry power from distant sources to demand centres and distribution lines that connect individual customers. In Ontario, the power generated is of many types: nuclear, hydro, natural gas, wind, solar and bio-energy.

The Province of Ontario belongs to the Eastern Interconnection electricity grid, which supplies power to Manitoba, Minnesota, Michigan and New York, in addition to Ontario. Power generators sell power into the grid for use by the region's residents, institutions and businesses.

Ontario's electricity consumers' demand for electricity changes with the time of day and season. Because the cost to store electricity on a large scale has been prohibitive, the amount of electricity that is sold into the grid at any time must always be perfectly matched with demand. To maintain reliability, that requires constant adjustments to the amount of electricity going into the grid as demand fluctuates. It is the job of the Independent Electricity System Operator (IESO) to operate the Ontario grid, making these reliability adjustments and administering the Ontario market through which electricity is sold. The reliability adjustments made by the IESO must be in accordance with standards set by the North American Electric Reliability Corporation (NERC). The IESO also manages the exchange of power through interconnections with Manitoba, Quebec and the United Sates.

As shown in **Section 2.2** and **Appendix 1**, Ontario's grid and market took time to evolve and have undergone many changes in the past several decades.

2.2 The History of Ontario's Electricity Market

Prior to the late 1990s, Ontario's electricity generation and transmission were provided by a single government agency called Ontario Hydro.

In the 1970s and 80s, Ontario Hydro constructed three nuclear plants; over the next 10 years, budget overruns and delays in their construction cost the province billions of dollars. In the early 1990s, Ontario faced a recession, which significantly reduced the demand for electricity. Reduced demand means higher electricity prices, since electricity costs have to be covered by fewer users. As a result of this reduced demand, electricity prices increased by 40%, and generation capacity exceeded demand by 50%. In an effort to stabilize electricity rates for consumers, in 1993

the Ontario government introduced a rate freeze for the next 10 years. This caused Ontario Hydro's long-term debt to increase.

In 1995, Ontario began to transform its electricity industry from a government-owned structure to a competitive marketplace. Ontario's electricity marketplace opened on May 1, 2002. Almost immediately, with a potential shortage of supply and an increased demand for electricity during the summer of 2002, electricity rates began to increase significantly; the government responded by freezing rates and agreeing to pay the difference between the higher market price and the lower frozen rate charged to consumers until May 2005. Ontario determined that it needed to introduce non-market mechanisms for generators to recover their costs and operate profitably. It became challenging to attract private investments into Ontario's electricity sector. At the same time, existing nuclear plants required significant restoration, and the province was facing a potential shortfall in the supply of electricity.

In 2004, the government created the Ontario Power Authority (OPA) to be responsible for long-term planning of the electricity industry. The OPA entered into long-term contracts with gas, wind and solar generators, typically covering a 20-year period or longer for nuclear and hydroelectric generators. These contracts guaranteed payments to generators for building and maintaining equipment to produce electricity. In 2007, the government introduced a regulation that required Ontario's four coal-fired power plants to cease burning coal by the end of 2014. In 2009, the OPA moved toward procuring renewable energy and streamlining the development of renewable energy projects. On January 1, 2015, the OPA merged with the IESO, to operate the electricity grid, administer the electricity market, and continue long-term planning and conservation efforts.

Appendix 1 gives the history of Ontario's electricity market in greater detail.

2.3 Ensuring a Reliable Supply of Electricity

2.3.1 Building Long-Term Capacity through Contracts with Generators

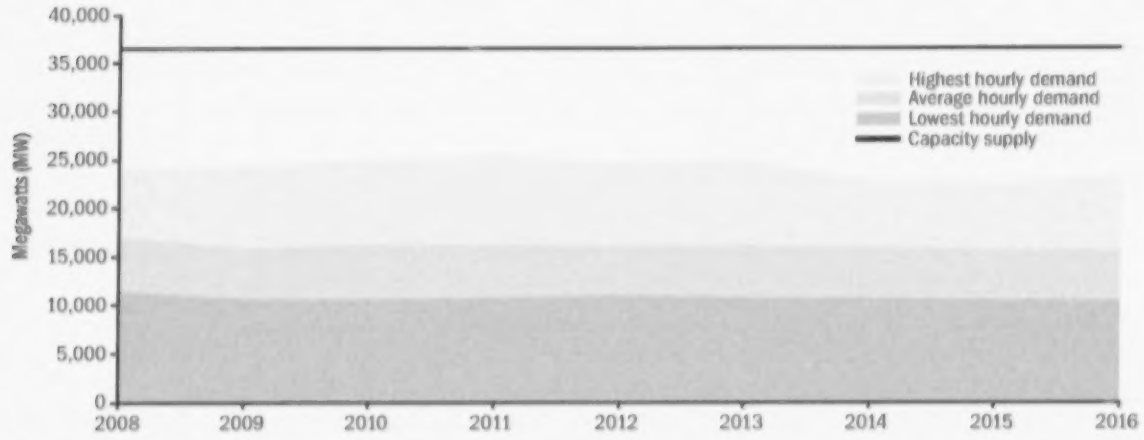
Long-term contracts with generators provide guaranteed payments that compensate generators for building generation equipment (for example, nuclear and gas plants) and maintaining it. These contracts also obligate the generators to make their generation equipment available to provide electricity to the IESO-managed electricity market.

2.3.2 Allocating Resources to Meet Different Demand Levels

Ensuring a reliable supply of electricity means that there must always be enough supply to meet fluctuating demand. Demand can be divided into three levels: a minimum amount that must be continuously supplied, the average demand, and demand that peaks significantly higher than average. For example, in 2016, Ontario's hourly demand for electricity averaged about 15,600 megawatt hours (MW). However, during one hour on September 7, 2016, demand peaked at about 23,200 MW, or almost 50% more. To put this into perspective, for all of 2016, Ontario's demand for electricity exceeded 20,000 MW in only 5% of hours in the year. Given that most electricity in Ontario is supplied by a number of large-scale generators (see below), this means that some generators actually produce electricity for only a very short time when demand is peaking or when another generator breaks down. Ontario's total generation capacity as of September 2017 was about 36,500 MW, well above both the average demand and the historic peak demand. However, a portion of this generating capacity cannot sustain operation at all times because of fuel limitations (for example, wind and solar).

Figure 1 shows the three levels of demand over a recent 10-year period.

Figure 1: Ontario's Hourly Electricity Demand and Capacity Supply, 2008–2016
Source of data: Independent Electricity System Operator (IESO)



The continuously supplied electricity to meet the minimum demand is typically from large-scale, reliable generators with lower operating costs: that is, nuclear energy and hydroelectric suppliers.

When demand peaks to high levels, the additional power is typically supplied by natural-gas electricity generators. This more flexible resource is "dispatchable," which means that generation levels can be more easily changed (ramped up or down) to match changes in demand. Wind and solar energy output is dependent on weather conditions, so their contribution to meeting demand must be managed by dispatchable generators such as natural gas.

2.3.3 Managing the Market and Grid to Balance Supply and Demand in Real Time

The IESO manages the market and grid to achieve the best possible balance between supply and demand in real time. It does this as one way to help keep both cost and supply stable and predictable.

While generators recover their capital and maintenance costs through long-term contract payments, most contracts are structured so that generators' additional operating costs (such as buying and burning gas) are recovered through the market price. Generators submit offers into the market to sell electricity, and they compete with one another. The IESO pays the chosen generators the market clearing price, calculated every five minutes based on supply and demand, for the electricity they produce and sell into the market.

To ensure electricity supply during peak demand times, the IESO arranges for certain generators to have their equipment turned on and waiting on standby so their power can be dispatched quickly. The IESO compensates the generators for their fuel, maintenance and operating costs for being on standby. This compensation comes from the Real-Time Generation Cost Generation Program (which we will refer to as the Standby Cost Recovery Program).

To avoid congestion that could damage transmission lines, the IESO may request a chosen generator to stop supplying electricity and another generator to supply the electricity instead, overriding the market's supply arrangements. The IESO may also request large industrial consumers to adjust their demand to ease congestion. In all these cases, the IESO compensates the generators for any profits they have lost as a result of these IESO interventions to maintain power system reliability. The compensation is called Congestion Management Settlement Credits (which we will refer to as the Lost Profit Recovery Program).

2.4 The Electricity Charge on Ratepayer Bills

The electricity charge—a single line on most residential and small-business electricity bills—actually has two components: the market price and the global adjustment. By far the biggest component (85% of the electricity charge in 2016) is the global adjustment. Specifically, of the total electricity charge paid by ratepayers in 2016 of $14.8 billion, $12.3 billion went to the global adjustment and $2.5 billion went to the market price.

Figure 2, along with the next three subsections, provides details on these two components of the electricity charge as well as the costs of reliability programs that, in addition to the IESO administrative costs, are recovered through the regulatory charge on ratepayer bills.

2.4.1 The Market Price

The market price (technically, the Hourly Ontario Electricity Price, or HOEP), is the hourly average of the market clearing price paid to generators. As explained in **Section 2.3.3**, generators offer to supply electricity into the market based on the cash they need to cover their marginal maintenance and operating costs to produce electricity—basically, buying and burning gas or whatever fuel is involved, as well as other incremental costs. Ontario's market price (HOEP) can therefore be viewed as a partial reflection of a competitively generated electricity market price. Another major portion of Ontario's electricity charge, through which generators recover their costs to build and maintain generation facilities through their long-term contracts, is the global adjustment.

2.4.2 The Reliability Programs

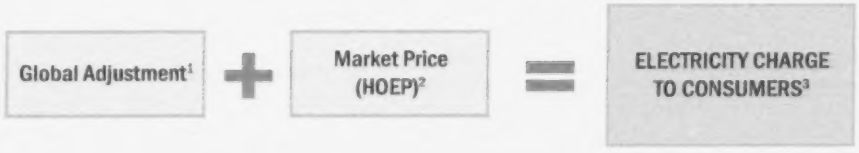
The IESO operates several reliability programs that supplement or override the market price to ensure electricity supply is steady and reliable. In 2016, market participants received about $500 million from these programs, which are governed by market rules and include the two programs (Standby Cost Recovery and Lost Profit Recovery) that are the focus of this audit. Costs associated with the reliability programs are recovered through the regulatory charge on ratepayer bills.

2.4.3 The Global Adjustment

The global adjustment, introduced in 2005, is mainly the cost of building and maintaining

Figure 2: Understanding the Electricity Charge on Consumers' Electricity Bill

Prepared by the Office of the Auditor General of Ontario



1. The **Global Adjustment** consists of:
   - **Nuclear Refurbishment:** Refurbishing and maintaining Ontario's nuclear fleet.
   - **Natural Gas:** Building and maintaining natural gas generation.
   - **Non-Utility Generators:** Building and maintaining about 30, mostly privately owned, generators under contracts negotiated with the Ontario Electricity Financial Corporation.
   - **Renewables:** Building and maintaining wind, solar, biomass and other renewable generation.
   - **Ontario Power Generation:** Electricity produced by OPG's nuclear and hydroelectric facilities at regulated rates set by Ontario Energy Board.
   - **Conservation Programs:** Energy-saving programs administered by the Independent Electricity System Operator and local distribution companies.
2. The **Market Price [Hourly Ontario Energy Price (HOEP)]** consists of **Electricity (Commodity) Production Costs:** buying and burning gas and other fuels to produce electricity, and variable operating costs.
3. The total of the Global Adjustment and Market Price (HOEP) is the **Electricity Charge to Consumers** that consumers pay, broken down into on-peak, mid-peak and off-peak hours. Residential and small-business consumers paying under the Regulated Price Plan pay time-of-use prices, set by the Ontario Energy Board.

generation capacity (Nuclear Refurbishment, Natural Gas, Independent Generators and Renewables in **Figure 2**), the cost to produce electricity by Ontario Power Generation's nuclear and hydroelectric generating stations (mostly at Ontario Energy Board–regulated rates) and Conservation programs.

The breakdown on the 2016 total global adjustment charge of $12.3 billion is as follows:

- $2.9 billion for **Nuclear Refurbishment and Hydroelectric**—This amount was in the form of contract payments to Bruce Power, operating the Bruce A and B Nuclear Generating Stations, and four suppliers of hydroelectric power.
- $1 billion for **Natural Gas**—This amount was in the form of contract payments to over 30 natural-gas power generators.
- $840 million to **Non-Utility Generators** (Independent Generators)—This amount was in the form of contract payments to about 30 independent generators.
- $3.5 billion for **Renewables**—This amount was in the forms of contract payments and Feed-In Tariff Program payments to producers of renewable energy.
- $3.5 billion to **Ontario Power Generation**—This amount paid for the power produced from the Pickering and Darlington Nuclear Generating Stations, 66 hydroelectric stations, and one wind turbine. The prices for most of this power were set by the Ontario Energy Board.
- $600 million for **Conservation Programs**—This amount is for costs associated with energy conservation programs administered by the IESO and Local Distribution Companies.

In **Section 3.05** of our *2015 Annual Report*, we presented our observations from our audit of the former Ontario Power Authority's (OPA) electricity power system planning process. Most of the costs included in the global adjustment result from the government's energy policies and electricity power system planning conducted by the former OPA, which merged with the IESO on January 1, 2015. As just detailed, these include the long-term contracts to build and maintain generation capacity, the government programs that fund the development of wind and solar generation, and the construction of new gas-powered plants to generate the capacity lost from the elimination of coal-fired power plants.

Figure 3 shows how each component of the global adjustment has changed between 2011 and 2016.

2.4.4 Global Adjustment Is Growing and Market Price Is Shrinking

Figure 4 shows how the average electricity charge on ratepayers' bills has been divided up between the global adjustment and the market price from 2008 to 2016.

The IESO has attributed the decline in the market price partially to a decrease in the operating costs to produce electricity. That runs contrary to the increasing costs of building and maintaining generation capacity. According to the IESO, electricity has been becoming cheaper to produce because of a decrease in natural gas prices and an increase in wind and solar generation (whose operating costs are extremely low, as they do not burn any fuels).

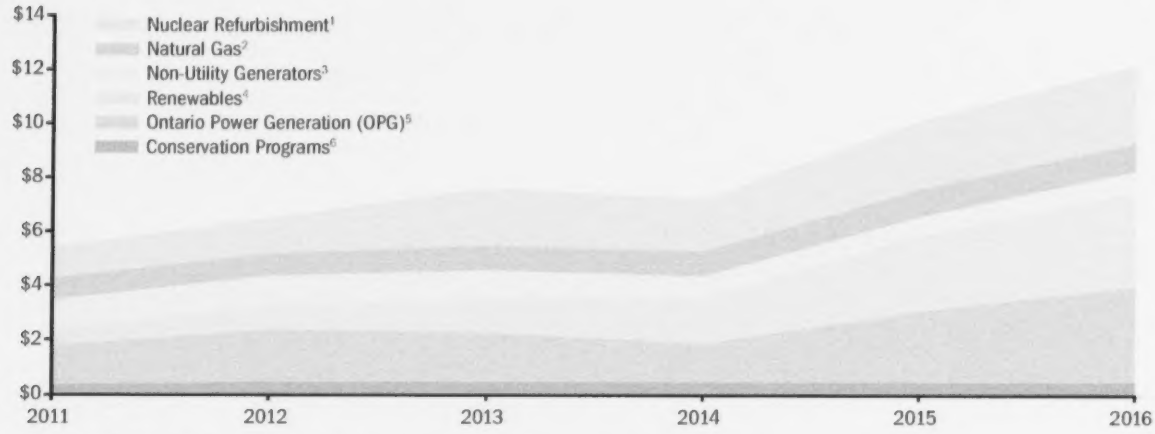
2.5 Oversight of the Electricity Market and of the IESO

The IESO manages the market and, under the *Electricity Act, 1998*, establishes the rules for its operation. The rules are in place to:

- ensure that the market works reliably to supply electricity, and that generators and industrial consumers participate in the market responsibly;
- govern IESO Reliability programs that supplement or override the market price to ensure that electricity supply is steady and reliable; and

Figure 3: Cost Components in the Global Adjustment ($ billion)

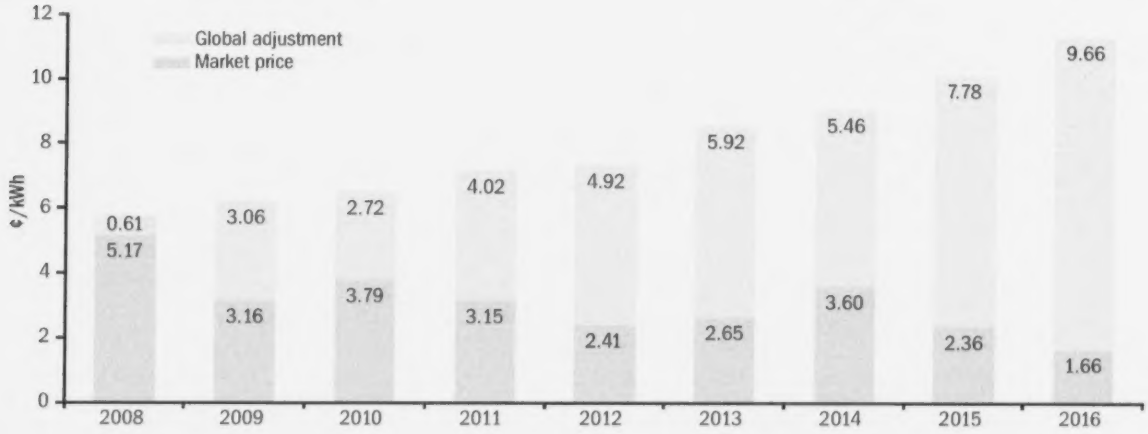
Source of data: Independent Electricity System Operator (IESO)



1. **Nuclear Refurbishment:** Nuclear and hydroelectric generation under long-term contracts with the IESO.
2. **Natural Gas:** Natural-gas generation under long-term contracts with the IESO.
3. **Non-Utility Generators:** Power produced by about 30, mostly privately owned, generators under long-term contracts with the Ontario Electricity Financial Corporation.
4. **Renewables:** Wind, solar, biomass and other renewable generation under long-term contracts with the IESO and under the Renewable Energy Standard Offer Program (RESOP) and the Feed-In Tariff (FIT). On October 1, 2009, the RESOP program was replaced by FIT.
5. **Ontario Power Generation (OPG):** Baseload power produced by OPG's nuclear and hydroelectric facilities under regulated rates set by the Ontario Energy Board.
6. **Conservation Programs:** Conservation programs include the Conservation Fund, which provides financial support for electricity conservation technologies, practices and research.

Figure 4: The Global Adjustment and Market Price Components of the Average Electricity Charge, 2008–2016

Source of data: Independent Electricity System Operator (IESO)



- give the IESO the authority to monitor and investigate market participants for breaking or misusing the rules.

In 2005, under the *Electricity Restructuring Act*, the government transferred some of the IESO's oversight responsibilities to the Ontario Energy Board. Specifically, the Ontario Energy Board became responsible for the Market Surveillance Panel (OEB Panel) that monitors whether the market is being operated fairly and efficiently by the

IESO, and for investigating and reporting on ways that market participants could, if not actually break the rules, misuse and exploit them for their own ends. **Figure 5** shows how the oversight function is shared between the IESO and the Ontario Energy Board, and the two bodies' staffing.

Under the *Electricity Act, 1998*, the IESO must give the Ontario Energy Board an assessment on the impact on ratepayers of any approved changes to market rules before the IESO implements them. The Ontario Energy Board can revoke any market rule change and ask the IESO's board to further review or reconsider the change if the Ontario Energy Board considers that the change does not meet any of the criteria of the *Electricity Act, 1998*, which include, among other things, considerations of the public interest and impact on ratepayers. These criteria in the Act are referred to in our report as impact on ratepayers.

To assist it in its functions, the OEB Panel has the right under the *Electricity Act, 1998*, to compel information, but it cannot impose fines. In contrast, the IESO, which operates under market rules, has the right to impose fines but no explicit legislative authority to compel information.

2.6 IESO's Computer Systems

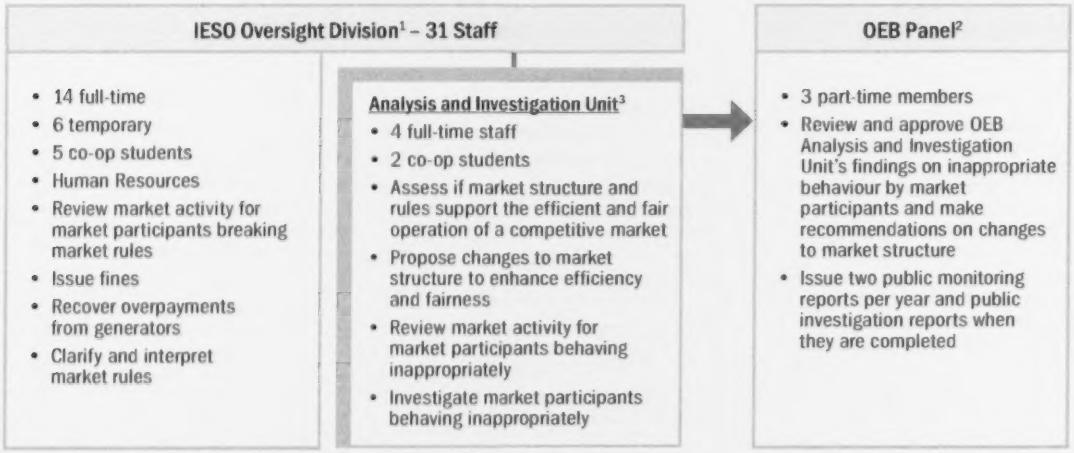
Figure 6 describes the three computer systems the IESO relies on to support its functions.

2.6.1 The Grid System

The grid system is connected to a network of over 75,000 electronic sensors scattered across the province. This network enables the electricity grid to operate. All of the electricity grids in the Eastern Interconnection Grid, Ontario's included, fall under the authority of the North American Electric Reliability Corporation (NERC). NERC is a not-for-profit international regulatory authority that develops and enforces standards for power grid reliability. The IESO's grid system must meet these standards. This entails having systems for ensuring

Figure 5: Assignment of Oversight Responsibilities at the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) as of September 1, 2017

Source of data: Independent Electricity System Operator (IESO)


IESO Oversight Division[1] – 31 Staff
• 14 full-time
• 6 temporary
• 5 co-op students
• Human Resources
• Review market activity for market participants breaking market rules
• Issue fines
• Recover overpayments from generators
• Clarify and interpret market rules
Analysis and Investigation Unit[3]
• 4 full-time staff
• 2 co-op students
• Assess if market structure and rules support the efficient and fair operation of a competitive market
• Propose changes to market structure to enhance efficiency and fairness
• Review market activity for market participants behaving inappropriately
• Investigate market participants behaving inappropriately
OEB Panel[2]
• 3 part-time members
• Review and approve OEB Analysis and Investigation Unit's findings on inappropriate behaviour by market participants and make recommendations on changes to market structure
• Issue two public monitoring reports per year and public investigation reports when they are completed

1. The official name is the Market Assessment and Compliance Division.
2. The official name is the Market Surveillance Panel.
3. In 2005, the OEB and the IESO entered into an agreement whereby the IESO would create and maintain a separate and independent unit to support the OEB (in this audit report, we call it the Analysis and Investigation Unit). Although the Unit operates under the IESO Oversight Division and is staffed by IESO personnel, its files and information are shielded from the IESO and available only to the OEB Panel. This is indicated by the thicker borders walling the unit off from the IESO.

Figure 6: Key Functions Performed by the Independent Electricity System Operator's (IESO) Computer Systems
Source of data: Independent Electricity System Operator (IESO)

Grid System	Market System	Administration System
• Collects and processes weather information • Forecasts electricity demand • Calculates and communicates dispatch instructions to generators • Monitors the transmission system and generators' performance	• Accepts and validates market bids and offers • Collects electricity production data from generators • Processes payments and issues trade confirmations • Processes electricity production and consumption information used for public reporting	• Supports administration of conservation programs • Supports market oversight analysis and investigation • Contains databases and electronic records for administration services, including email, telephone, accounting, payroll and contracts

the grid system is secure, and for analyzing and monitoring threats to security in real time.

2.6.2 The Market System

The market system is connected to a network of about 560 market participants that include generators, electricity exporters and local distribution companies. The market system also processes payments to market participants. In 2016 these payments totalled about $17.5 billion.

2.6.3 The Administration System

The administration system contains databases and electronic records for administration services, and also supports the administration of conservation programs and market oversight analysis and investigation.

2.7 Cyberattacks

Cyberattacks are launched by hackers trying to find a way to install malicious software (malware) onto a network or computer system, or embed malware in an email attachment or website. Malware is designed to exploit vulnerabilities in the system to enable the attacker to, for example, take control of the system, delete files, extract confidential information, or damage physical equipment.

2.7.1 Cyberattacks in the Electricity Sector

According to the Canadian Cyber Incident Response Centre, the energy and utilities sector is the third-most attacked sector after the technology and finance sectors. Seven percent of all cyberattacks target the electricity sector. In July 2017, the U.S. government warned that a hacking campaign was specifically targeting the nuclear and energy sectors.

The following are examples of successful cyberattacks that have already occurred in the energy sector:

- In 2012, a cyberattack on the national oil company of Saudi Arabia damaged about 35,000 computers and deleted all of the company's data. Operations were disrupted for over two weeks.
- In 2015, a cyberattack on the Ukrainian electricity grid temporarily disrupted the flow of power, causing blackouts that affected almost 230,000 for close to six hours.
- In September 2015, the security of the IESO's network was breached, and market participants had access to the confidential contract information of one market participant for seven minutes.
- In December 2016, an employee at St. Catharines Hydro responded to a fraudulent email that appeared to be from the utility's bank. The employee entered the utility's banking login information, and $655,000 was stolen.

Monitoring systems at the IESO identified that during a recent week, the following attempted cyberattacks were prevented by the IESO's cybersecurity systems:

- Almost 22,000 spam emails containing malware were sent.
- About 6,000 random intrusions into the IESO's computer networks were attempted.
- About 7.4 million attempted data transfers were flagged as suspicious and possibly indicative of random hackers trying to extract confidential information.

3.0 Audit Objective and Scope

Our audit objective was to assess whether the Independent Electricity System Operator (IESO) had effective systems and processes in place to ensure that:

- oversight of electricity market participants is sufficient and market participants operate in accordance with market rules; and
- critical IT assets and infrastructure are protected so that the reliability of the grid is maintained.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at the IESO and the Ontario Energy Board reviewed and agreed with the suitability of our audit objective and related criteria as listed in **Appendix 2**.

We focused on the Ontario Energy Board's oversight of the IESO and the IESO's activities in the five-year period ending March 31, 2017, and considered relevant data and events in the last 10 years. We conducted our audit from January to July 2017, and obtained written representation from the IESO and the Ontario Energy Board that, effective November 21, 2017, they have provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

In conducting our work, we reviewed documents and interviewed staff at two of the IESO's office locations. We also reviewed publications from leading IT security intelligence organizations and IT frameworks and good practice guidance such as COBIT 5 (which is a framework for the governance and management of enterprise IT).

Specifically, we interviewed senior management at the IESO, staff at the Oversight Division, staff in the IT Department and IESO Internal Audit, the Chief Information Officer, and the Chair of the IESO's Board of Directors. The documents we reviewed included policies and procedures, investigations and recoveries completed. We also collected and analyzed market oversight investigation and payment recovery information.

We reviewed IT records and examined related documentation such as threat and risk assessment reports, cybersecurity vulnerability assessments, IT policies, service-level agreements, backup and system recovery plans and procedures as well as reports on the IESO's compliance with North American Electric Reliability Corporation IT security standards.

We also reviewed the semi-annual electricity market monitoring reports published by the Ontario Energy Board Market Surveillance Panel for the past 10 years and its special report on Congestion Payments in Ontario's Wholesale Electricity Market published in 2016, and all six investigation reports the Panel has issued since 2003. We also met with the Ontario Energy Board, the current chair and members of the Market Surveillance Panel and the former chair of the Market Surveillance Panel. Throughout our report, we refer to some of the information reported by the Market Surveillance Panel. For the purpose of providing a clearer explanation of the technical information reported by the Panel, we had to interpret

and simplify what the Market Surveillance Panel has reported.

In addition, we did a jurisdictional scan and engaged with the current head of the Market Surveillance Administrator in Alberta, the former head of the Market Surveillance Administrator in Alberta and the IESO Oversight Division in Ontario, and the head of an external oversight body for the New York Independent System Operator.

We engaged an expert with knowledge of the fields of electricity and energy to assist with interpretation of technical information that we reviewed as part of this audit and to provide knowledgeable insight and perspective on the issues we identified.

4.0 Detailed Audit Observations—Market Oversight

As explained in **Section 2.4**, ratepayers' bills have an electricity charge that is made up of the global adjustment and the market price. In addition, there is a regulatory charge through which the costs of reliability programs operated by the Independent Electricity System Operator (IESO) are recovered.

In 2016, ratepayers paid about $12.3 billion in global adjustment and an additional $2.5 billion for electricity bought as a commodity on the market (i.e., market price), as well as about $500 million for the reliability programs.

The Ontario Energy Board has oversight responsibility for about 29% of the $12.3-billion global adjustment (or $3.5 billion), which is paid to Ontario Power Generation. The remaining 71%, or $8.8 billion, is paid to generators under long-term contracts procured mostly by the former Ontario Power Authority that on January 1, 2015, was merged with the IESO. The IESO has oversight responsibility for about $500 million relating to the reliability programs.

In **Section 4.1**, we present our findings that relate to Ontario Energy Board oversight of IESO reliability programs governed by market rules and explain how the Ontario Energy Board could have done more to protect ratepayers' interests. In **Section 4.2**, we discuss the impacts of the government's decision to implement the Industrial Conservation Initiative, which allows large industrial ratepayers to reduce the amount of global adjustment they pay.

4.1 The IESO and Ontario Energy Board Could Have Done More to Support the OEB Panel's Recommendations

Under the *Electricity Act, 1998*, the IESO must give the Ontario Energy Board an assessment of the impact on ratepayers of any approved changes to market rules before the IESO implements them. The Ontario Energy Board has the authority to revoke the changes to market rules and send them back to the IESO for further consideration. The Ontario Energy Board, however, cannot order that the IESO make specific changes to market rules. Also, the IESO is not required to make changes or reapprove market rules revoked by the Ontario Energy Board. The Ontario Energy Board has never revoked a market rule change approved by the IESO Board.

The OEB Panel has made numerous recommendations to the IESO Board relating to the Real-Time Generation Cost Guarantee Program (shortened in this report to the Standby Cost Recovery Program) and Congestion Management Settlement Credits (shortened in this report to the Lost Profit Recovery Program):

- In 2010, 2011, 2014, 2015 and 2016, it recommended that the Standby Cost Recovery Program be reviewed, reassessed, justified or scaled back, and questioned if the program needs to be retained. As detailed in **Section 4.3**, this Program on average pays gas generators about $60 million per year and, according to an OEB Panel estimate, if the

IESO eliminates the reimbursement of certain operating and maintenance costs, the cost of the Program would be reduced by approximately $30 million annually.

- In almost all of its 28 reports (between 2002 and 2017), the OEB Panel expressed concerns about or recommended changes to the Lost Profit Recovery Program. As detailed in **Section 4.4.2**, this program on average pays market participants about $110 million per year, and, according to the OEB Panel, its weaknesses have allowed market participants to offer or bid prices into the market not based on actual costs or electricity supply needs but for the sole purpose of getting payments from the program.

These programs are governed by market rules, and their costs are charged to ratepayers through the regulatory charge on ratepayer bills. In the cases where the OEB Panel has concerns, the Ontario Energy Board has never revoked and sent back to the IESO for reconsideration a market rule change.

The OEB Panel has also pointed out that gas generators and others that have a direct and substantial financial interest in IESO programs like the Standby Cost Recovery Program influence the process that the IESO uses to change market rules. In this situation, the Ontario Energy Board's responsibility to protect ratepayers' interests should be even more heightened.

We made similar observations in our *2011 Annual Report* (see **Section 3.02** on our audit of regulatory oversight of the electricity sector). In our 2013 follow-up of the 2011 audit (see **Section 4.02** of our *2013 Annual Report*), the Ontario Energy Board informed us that in 2011, the Board began a correspondence with the IESO regarding the recommendations the OEB Panel made in its report to the IESO and that it requested and received in writing the following information from the IESO:

- steps the IESO intends to take in response to any recommendations made to it in the OEB Panel report;
- estimated timelines for completion of those steps; and
- whether, in the IESO's view, any actions or market rule amendments beyond those noted in the OEB Panel's report should be taken.

Based on this information provided to us in 2013 by the Ontario Energy Board, we concluded that our recommendation had been substantially implemented. However, during our 2017 audit, we found that the IESO has not always taken all the steps it could to meaningfully implement the OEB Panel's recommendations pertaining to the Standby Cost Recovery and the Lost Profit Recovery programs.

RECOMMENDATION 1

To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):

- implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and
- where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.

IESO RESPONSE

The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations

made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the *Electricity Act, 1998*,including amending the market rules where so ordered by the Board.

RECOMMENDATION 2

To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.

ONTARIO ENERGY BOARD RESPONSE

The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies.

Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding.

The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately addressed in a timely manner.

OFFICE OF THE AUDITOR GENERAL RESPONSE

Although the OEB obtains annual filings from the IESO on the status of actions taken on the OEB Panel's recommendations, we noted that these status updates do not meaningfully address the recommendations pertaining to the Standby Cost Recovery and Lost Profit Recovery programs.

RECOMMENDATION 3

To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the *Electricity Act, 1998*, when misuse and abuse of a market rule is brought forward by the OEB

Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO) in a timely manner.

MINISTRY RESPONSE

The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently.

The Ministry, in consultation with both the OEB and the IESO, will review the *Electricity Act, 1998*, regarding the market rule approval process. The Ministry will also review the authority of the OEB.

4.2 Government Not Transparent about the Effect of Expanding the Industrial Conservation Initiative

4.2.1 Overview

The government introduced the Industrial Conservation Initiative (ICI) to provide large industrial ratepayers with an incentive to reduce their consumption when the demand for electricity is at its peak. The government announced at the time of its launch in 2011 that by encouraging less consumption, the ICI could reduce the need to procure new generation resources. However, new generation resources have been procured since 2011.

The incentive the ICI provides is a reduction in the amount of global adjustment eligible ratepayers have to pay each month (recall from **Section 2.4** that the global adjustment is the larger of the two components of a ratepayer's electricity charge, the other being the market price of electricity). Under the ICI, an eligible industrial ratepayer has its global adjustment charge reduced in accordance with its portion of the overall provincial demand for electricity in the five hours of the year demand is at its highest.

To illustrate how this works, **Figure 7** presents hypothetical ratepayer data, and **Figure 8** shows the calculations.

Figure 7: Hypothetical Data for an Industrial Ratepayer Eligible for the Industrial Conservation Initiative
Prepared by the Office of the Auditor General of Ontario

5 Hours With Highest Demand	Ratepayer's Demand (MW)	Overall Provincial Demand (MW)
July 1, 5–6 p.m.	5.2	23,000
July 12, 4–5 p.m.	5.5	22,500
August 22, 5–6 p.m.	5.7	23,800
August 23, 3–4 p.m.	5.1	23,500
September 4, 2–3 p.m.	5.8	24,000
Total	**27.3**	**116,800**

The electricity charge for the hypothetical industrial ratepayer in this example will be the market price plus $255,366 each month. Once the industrial ratepayer's global adjustment amount is calculated, the payment amount is fixed for the whole year, regardless of the amount of electricity the industrial ratepayer actually consumes at any time other than the five hours provincial peak demand is at its highest.

The more the industrial ratepayer reduces its electricity consumption during the five hours of highest peak demand, the lower its fixed monthly global adjustment charge will be. If the industrial ratepayer reduces consumption to zero during those five hours, the global adjustment component of its monthly bill will be eliminated altogether, and it pays just the market price for electricity every month for a full year. This can be a very significant discount—as **Figure 4** shows, for 2016, the global adjustment made up 85% (9.66 cents per kilowatt hour [cents/kWh] of the total 11.32 cents/kWh) of Ontario ratepayers' electricity charge.

To be eligible when the ICI was first launched in 2011, an industrial ratepayer's monthly peak demand had to average out, over the 12 months from May 1 to April 30, to at least 5 MW. Since then, eligibility was expanded three times (that is, the minimum average monthly peak demand was lowered three times), as follows:

- July 2015—from 5 MW to 3 MW;
- January 2017—from 3 MW to 1 MW; and

Figure 8: Calculations for Hypothetical Industrial Ratepayer's Global Adjustment Charge
Prepared by the Office of the Auditor General of Ontario

Ratepayer's Portion of Overall Annual Provincial Demand				
Total Ratepayer Demand	÷	Total Overall Provincial Demand		
27.3 MW	÷	116,800 MW	=	0.00023373

Ratepayer's Fixed Global Adjustment Monthly Payment				
Ratepayer's Portion of Overall Provincial Demand	×	Total Monthly Global Adjustment		
0.00023373	×	$1.076 billion	=	$255,366

- July 2017 (under the *Ontario Fair Hydro Plan Act, 2017*)—from 1 MW to 0.5 MW.

To put this into perspective, the initial requirement of a minimum 5 MW peak demand restricted eligibility to very large industrial electricity consumers, such as car manufacturing plants, cement companies, mining companies and pulp-and-paper mills. The latest lowering of the requirement to a minimum 0.5 MW peak demand makes commercial operations as small as greenhouses eligible for the ICI.

4.2.2 OEB Panel Reports that the ICI Increases Electricity Charges to Residential and Small-Business Ratepayers

The OEB Panel reported on the impact of the ICI shortly after it was launched. In summer 2011, electricity prices for large industrial ratepayers had decreased by about 13% compared to the summer before. In the first 10 months of the ICI, about 65 large industrial ratepayers reduced their global adjustment charge by about $245 million. This $245 million was added to the electricity bills of residential and small-business ratepayers.

Electricity prices continued to decrease for eligible industrial ratepayers in the ensuing years as a result of the ICI. The average monthly electricity prices they paid stayed below what they paid in 2010 (with the exception of three months in winter 2014 when the market price spiked because of a sudden rise in gas prices).

In the same time period, electricity prices for residential and small-business ratepayers almost doubled, as shown in **Figure 9**.

As of December 2016, about 80 industrial ratepayers participated in the ICI. With the government's significant lowering of the eligibility threshold in January and July 2017 (on the latter date as part of the Fair Hydro Plan), many more non-residential ratepayers are eligible to participate in the ICI. As a result, more global adjustment charges have been shifted to residential and small-business ratepayers.

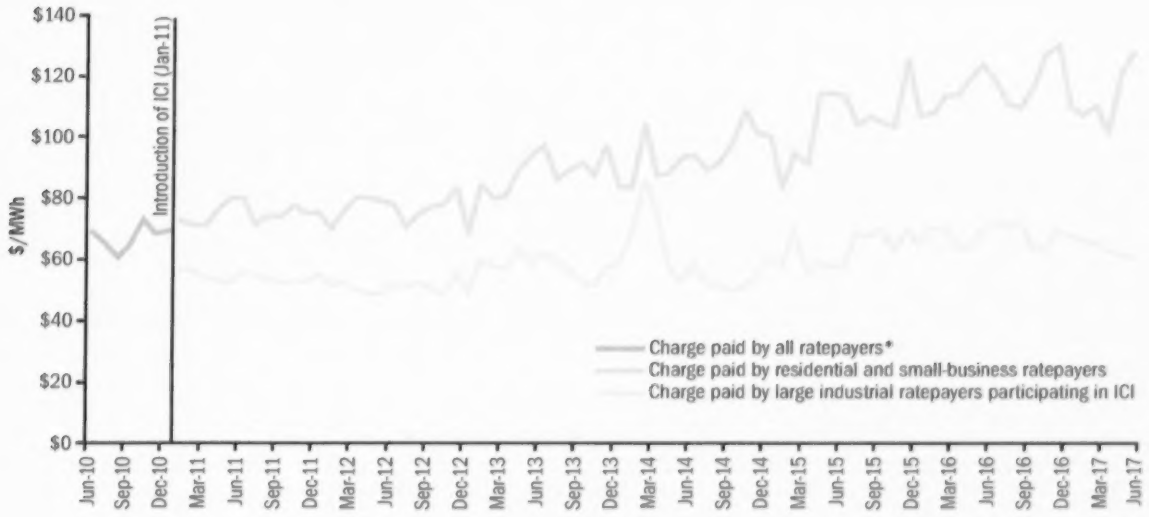
RECOMMENDATION 4

To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy-consuming ratepayers and publicly report this information.

MINISTRY RESPONSE

The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.

Figure 9: Electricity Charge Before and After the Introduction of the Impact of Industrial Conservation Initiative (ICI)
Source of data: Independent Electricity System Operator (IESO)



* The Industrial Conservation Initiative (ICI) split the charge paid by all ratepayers into two charges: one for large industrial ratepayers participating in ICI, and a second one paid by all other (residential and small-business) ratepayers.

Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global-adjustment costs each month, as well as the consumption for each class of consumer.

The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years.

4.3 The IESO Continues to Administer the Standby Cost Recovery Program Despite Reasons Not To

The Standby Cost Recovery Program pays generators for costs to start and then run their equipment while on standby to supply electricity. The generators enrolled in the Program are gas plants (prior to their closures by 2014, coal-fired power plants were also enrolled), whose equipment needs to be warmed up, running and ready to go so the IESO can dispatch them to supply electricity very quickly should demand spike suddenly or unexpectedly.

When the Program was introduced in 2003, it reimbursed generators only for their fuel costs for being on standby. In 2009, the program was expanded to also reimburse them for their additional operating and maintenance costs while on standby.

4.3.1 The IESO Has Not Implemented the OEB Panel's Recommendation to Reassess and Change the Standby Cost Recovery Program

The OEB Panel reported in 2015 that the electricity supplied by the gas generators that claimed $61 million in costs in 2014 under the Standby Cost Recovery Program was used for less than 1% of the hours to meet Ontario demand.

The OEB Panel was concerned that the Program is overused, at a time when Ontario regularly finds itself in surplus power conditions and is a net exporter of electricity.

OEB Panel reports in 2010 and 2011 recommended that the IESO revise (2010) and reassess (2011) whether the Standby Cost Recovery Program is providing a net benefit for ratepayers, which the IESO did not do. A 2014 OEB Panel report recommended that the IESO provide detailed analysis of market data to justify the need for the Standby Cost Recovery Program's continued existence, which the IESO did not provide. In its 2016 report, the OEB Panel again questioned the need for this Program and why the IESO does not stop reimbursing gas generators for certain operating and maintenance costs, which, according to the OEB Panel, would save ratepayers millions.

The IESO has asserted that the Program is still needed for reliability purposes. However, the IESO has yet to provide any detailed analysis to justify the need for the Standby Cost Recovery Program and its concerns about reliability if the program was discontinued.

4.3.2 Changes to the Standby Cost Recovery Program Do Not Encourage Generators to Be Efficient—Costing Ratepayers More than Necessary

In 2009, the type of costs reimbursed by the Standby Cost Recovery Program expanded from just gas and coal generators' standby fuel costs to their maintenance and operating costs as well.

This change has reduced the incentive for gas and coal generators (prior to their closure) to try to operate more efficiently by managing costs. Costs associated with the Standby Cost Recovery Program are directly passed through to ratepayers.

In 2015, the OEB Panel reported that ratepayers would save about $30 million annually if the Program stopped reimbursing gas generators for certain maintenance and operating costs.

In addition to the savings, this change would provide an incentive for generators to operate more efficiently and minimize these costs, as they would no longer be automatically reimbursed.

The IESO has not implemented the Panel's recommendations. As a result, the Program continues today to reimburse gas generators for their maintenance and operating costs.

4.3.3 Nine Gas and Coal Generators Have Claimed $260 Million in Ineligible Costs under the Program—About $168 Million Recovered

In response to a suggestion by the OEB Panel, in 2012 the IESO Oversight Division started auditing the costs claimed by nine of the 11 gas and coal generators registered under the Standby Cost Recovery Program at that time. Since then, the number of generators registered under the Program has increased to 17. The audits conducted by the Oversight Division identified almost $260 million in possible ineligible cost claims out of a total of about $600 million paid out to gas and coal generators under the Program. The Oversight Division recovered about $168 million (about two-thirds) of the $260 million through settlements with individual generators, and at the time of our audit it was trying to recover another $10 million that generators were disputing. **Figure 10** shows the results of the audits.

Only fuel, maintenance and operating costs that gas and coal generators incur for being on standby are eligible to be claimed under the Standby Cost Recovery Program. The IESO was not reviewing all

Figure 10: Results of Audits of Costs Claimed by Nine Generators under the Standby Cost Recovery Program
Source of data: Independent Electricity System Operator (IESO)

Generator*	Years of Submissions Covered by Audits	Total Claims Paid ($ million)	Ineligible Costs ($ million)	Ineligible Costs % of Total Paid	Ineligible Costs Recovered Total Recovered ($ million)	Ineligible Costs Recovered % of Ineligible Costs Recovered
Company A	2009–15	240.0	162.1	68	110.0	68
Company B	2006–15	147.0	50.9	35	22.0	43
Company C	2006–15	78.0	22.7	29	17.4	77
Company D	2008–14	72.0	2.1	3	1.3	62
Company E	2010–12	23.0	7.5	33	7.5	100
Company F	2009–12	17.0	6.5	38	3.5	54
Company G	2010–12	7.9	4.1	51	2.7	66
Company H	2006–12	3.6	2.3	64	2.3	100
Company I	2006–15	2.4	1.2	50	0.8	67
Total		**590.9**	**259.4**	**44**	**167.5**	**65**
Average				**41**		**71**

* Audit information is designated confidential information under the provisions of the Market Manual, Market Rules and the *Electricity Act, 1998*. We therefore refer to generators in this figure anonymously as "Company A," "Company B," and so on.

cost claims submitted by generators before paying. Generators claimed thousands of dollars annually for staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps, which have nothing to do with running power equipment on standby. For example, the Oversight Division found that one generator claimed about $175,000 for coveralls and parkas at one facility over a two-year period.

In October 2017, the OEB Panel released a public report detailing the results of its investigation of the Goreway Power Station's misuse of the Standby Cost Recovery and Lost Profit Recovery programs. Through review of Goreway's internal records and documents and other information, the OEB Panel found the following:

- Goreway claimed $17 million in costs for which it could not provide any supporting records.
- Goreway claimed an extra $25,000 in costs each time it started its power equipment. The total of payments it received under the Standby Cost Recovery Program as a result was $5 million.
- Goreway claimed ineligible costs that included $6.5 million for gas to fuel a steam turbine that does not consume any gas and $300,000 for landscaping.
- Goreway provided to the IESO Oversight Division, which was conducting its own audit, documents containing fictitious costs. Some related to equipment parts worth about $27 million that Goreway had no intention of purchasing and that would be redundant.

4.3.4 Electricity Bought at Higher Cost from Gas Generators Because Gas Generators Used the Standby Cost Recovery Program to Suppress the Market Price

Besides filing ineligible claims for costs that have nothing to do with fuel, maintenance or operating costs, some gas generators have filed Standby Cost Recovery Program claims for their costs to produce electricity, instead of reflecting those costs in their offer to sell electricity to the market (those costs would then be recovered through the market price, as explained in **Section 2.4**). Only incremental costs to run equipment on standby should be

claimed under this Program, not generators' costs to produce electricity for sale to the market. The OEB Panel reported on this in 2010.

Claiming their costs to produce electricity under the Standby Cost Recovery Program enabled gas generators to lower the price they offered to be chosen to produce electricity. **Figure 11** shows how the market price is suppressed when gas generators misuse the Program by claiming their costs to produce electricity.

This has led to the IESO's inefficiently selecting which gas generators will produce electricity (that is, the IESO buys electricity from a gas generator that produces it for a higher overall cost), resulting in a depressed market price and an inflated global adjustment.

According to a Panel estimate, the market price for electricity from January to April 2010 was artificially lower by as much as 85% than it would have been if generators had not claimed their costs from the Standby Cost Recovery Program. The OEB Panel also estimated that between December 9, 2009, and April 30, 2010, the loss associated with the IESO's buying electricity from one gas generator that produced it for a higher overall cost was about $16.3 million.

The OEB Panel has not done any similar reviews since 2010.

4.3.5 Electricity Costs Higher Because Gas Generators Do Not Continuously Run Their Equipment When on Standby

Another way reported by the OEB Panel that gas generators can raise electricity costs is by shutting down their equipment while on standby, only to restart it again within two hours. This allowed generators to submit their equipment start-up costs under the Standby Cost Recovery Program. Running their equipment continuously would have saved money, but generators could not have then submitted the additional start-up costs for reimbursement. The OEB Panel reported that in summer 2010, nearly all of the $19 million in extra electricity costs charged to ratepayers was because of this practice.

RECOMMENDATION 5

To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO),

Figure 11: Standby Cost Recovery Program—How Market Price Is Suppressed[1]

Prepared by the Office of the Auditor General of Ontario

1. This figure is for demonstration purposes only and does not reflect an actual transaction that has occurred.
2. Based on an artificially lower offer, Generator 1 would be selected by the Independent Electricity System Operator (IESO) to produce electricity over Generator 2, even though Generator 1's cost to produce electricity is $50 higher. Generator 1 recovers $100 worth of costs through the Standby Cost Recovery Program, which is charged directly to ratepayers.

we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.

IESO RESPONSE

In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

RECOMMENDATION 6

To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.

IESO RESPONSE

The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits.

The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," **http://www.ieso.ca/-/media/files/ieso/document-library/engage/me/benefits-case-assessment-market-renewal-project-clean-20170420.pdf?la=en** and **http://www.ieso.ca/sector-participants**). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time.

4.4 The IESO Continues to Pay Market Participants under the Lost Profit Recovery Program without Addressing the Program's Flaws and Weaknesses

4.4.1 Overview

The Lost Profit Recovery Program was established in May 2002. The Program compensates market participants if they lose money from a change that the IESO makes to the way it has scheduled power to be dispatched. The need to make these

interventions, and then to pay compensation, is built into Ontario's market design: one scheduling approach considers system constraints (such as transmission line capacity) to determine which generator produces power, but another scheduling approach, based on an unconstrained (competitive and open) transmission system, is used to determine market price.

One of the reasons for the IESO's intervention in the market schedule is to keep transmission lines from being overloaded. Another is to fill an unexpected shortfall in supply. Here are three scenarios where this program comes into play:

- Generator A has successfully offered to supply electricity for the market for a given time period. However, the IESO must order it to stop supplying electricity because of a potentially damaging overload in the transmission lines. Generator A loses money as a result. The Program compensates Generator A for the lost profit.
- There is a shortfall in electricity because the IESO has ordered Generator A to stop supplying. The IESO orders Generator B, whose bid to supply electricity was too high to be chosen, to supply the shortfall at the market price. Generator B's costs to supply the electricity are higher than the market price. The Program compensates Generator B for the difference between its costs to supply electricity and the market price.
- A large industrial consumer offers, for a price, to reduce its high demand for electricity at a given time. The IESO cannot accept this offer as it already planned to supply the electricity, and sending the supply through the transmission lines without the consumers needed to draw down the supply would cause a potentially damaging overload in the transmission lines. The IESO orders the large industrial consumer to keep its demand high, and the large industrial consumer loses money as a result. The Program compensates the large industrial consumer for this loss.

Between 2002 and the end of 2016, market participants have been paid about $1.6 billion, or $110 million annually on average, under this Program.

4.4.2 The OEB Panel Has Reported the Potential for Participants to Misuse Market Rules under the Lost Profit Recovery Program

A 2016 OEB Panel special report on the Lost Profit Recovery Program states: "Since market opening, no element of Ontario's wholesale electricity markets has attracted the attention and concern of the Market Surveillance Panel [OEB Panel] more than [Lost Profit Recovery Program] payments."

Even before the market opened in 2002, the OEB Panel reported that the market participants could offer or bid prices not based on actual costs or supply needs but for the sole purpose of getting payments from the Program.

Soon afterwards, the OEB Panel was reporting not just on the potential for this to happen, but also on actual situations of market participants misusing the program. The OEB Panel began reviewing the payments market participants received under the Program after the market opened in 2002, and also investigating the behaviour of certain participants. The results of five investigations, some of which took from two to four years to complete, have been made public by the OEB Panel. These are summarized in **Figure 12**.

The OEB Panel has also reported on large payments made under the Program. As of the end of 2015, about $500 million of the total $1.5 billion paid out went to market participants in northwestern Ontario. The generators in that region represent less than 5% of Ontario's generation capacity, and the demand for electricity in that region has fallen. The concern is that the market participants involved may be submitting bids and offers into the market to create the conditions under which they can claim lost profits that they may not have incurred.

Figure 12: Investigations into the Lost Profit Recovery Program Reported by the Ontario Energy Board (OEB) Panel[1]

Source of data: Ontario Energy Board (OEB)

Year	Market Participant	Summary of Results
2016	Goreway Power Station	A substantial portion of the $11 million paid to Goreway under the Program between June 2009 and June 2012 is believed by the OEB Panel to have resulted from misuse of the rules.
2015	Resolute Forest Products Inc.[2]	During an eight-month period in 2010, the company misused market rules to gain $20.4 million. The OEB Panel reported that the company used one of the Panel's past reports, which recommended that the IESO fix the rules, to learn how to misuse the rules. As a result of a subsequent investigation by the IESO's Oversight Division, Resolute repaid $10.6 million.[3]
2014	Greenfield Energy Centre	Between December 2010 and August 2011, the company misused market rules to gain $432,000. Greenfield Energy later repaid the amount in full to the IESO.
2012	TransAlta Energy Marketing Corp.	The investigation exposed weaknesses in certain market procedures, which the OEB Panel recommended that the IESO fix.
2012	West Oaks Energy NYINE, LP	The investigation exposed weaknesses in certain market procedures, which the OEB Panel recommended that the IESO fix.

1. The only other investigation conducted by the OEB Panel since 2003 did not relate to the Lost Profit Recovery Program (it was a complaint about possible withholding by Ontario Power Generation of coal-fired generation).
2. In 2011, Abitibi Bowater Inc. (Abitibi) was renamed Resolute Forest Products Inc. At the time, Abitibi owned and operated Bowater Canadian Forest Products Inc. and Abitibi-Consolidated Company of Canada.
3. The OEB Panel does not have the authority to issue fines or sanctions against market participants. It can report and make recommendations, and refer the matter to the IESO Oversight Division. The Division can issue fines; however, it has to conduct its own independent investigation. For further discussion see **Section 4.7.5**.

As mentioned in **Section 4.3.3**, the OEB Panel released a public report detailing a generator's misuse of the Standby Cost Recovery and Lost Profit Recovery programs. The OEB Panel found that this generator received under the Lost Profit Recovery Program a large portion of $11 million for claimed lost profits that did not exist. The OEB Panel also reported that some of the IESO's fixes to the market rules that the generator misused may still leave the Program open for other generators to misuse.

The OEB Panel has analyzed the Program in almost all of its 28 reports and made several recommendations for the IESO to fix the rules' flaws that allow market participants to claim artificial losses. The Panel has also recommended that the IESO restrict this Program. The IESO has fixed some of the flaws, but sometimes not to the full extent recommended by the Panel. The IESO has otherwise responded to the OEB Panel that it is deferring making any major changes to the Program until the working group of its Market Renewal Initiative completes its work. However, changes resulting from this work will not be implemented for another five years. (See **Section 4.6.2** for more information on this working group.)

RECOMMENDATION 7

To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.

IESO RESPONSE

The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation

and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change.

The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," **http://www.ieso.ca/-/media/files/ieso/document-library/engage/me/benefits-case-assessment-market-renewal-project-clean-20170420.pdf?la=en** and **http://www.ieso.ca/sector-participants**). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

4.5 Market Participants Benefiting from Market Flaws Are Involved in Changing Market Rules and Market Design

4.5.1 Overview of the Market Rule Amendment Process

The IESO Board has the authority and responsibility to amend market rules. Anyone, including the IESO or market participants, can request an amendment to the market rules. Before the IESO Board approves any amendment, it is first reviewed by the IESO Technical Panel, appointed by the IESO Board, made up of members who are mostly industry and generators' representatives. **Figure 13** shows the most recent composition of the Technical Panel as of June 27, 2017.

The Technical Panel considers each proposed amendment and decides if:

- the amendment should not be adopted;
- the amendment should be adopted and recommended for IESO Board approval; or
- the amendment needs further clarification or stakeholder input and should then be resubmitted to the Technical Panel for reconsideration.

Figure 13: Composition of Technical Panel

Source of data: Independent Electricity System Operator (IESO)

Member*	Representation
1	Consumer
2	Energy-Related Business/Services
3	Natural Gas Industry
4	Independent Electricity System Operator (IESO)
5	Market Participant
6	Generator
7	Generator
8	Residential Consumer Group
9	Industrial Consumer Group
10	Electricity Wholesalers
11	Transmitters
12	Chair

* Number of members can fluctuate.

4.5.2 Gas Generators Are Involved in the Rule-Changing Process of the Standby Cost Recovery Program

As mentioned in **Sections 4.3.1** and **4.3.2**, the OEB Panel has repeatedly recommended that the market rules that govern the Standby Cost Recovery Program be changed. The OEB Panel specifically recommended that the IESO stop reimbursing gas generators for their maintenance and operating costs. The following is a chronology of key events relating to issues with the Standby Cost Recovery Program:

- 2011 and 2014—The OEB Panel recommends that the Standby Cost Recovery Program be reviewed to assess its benefits for ratepayers and whether it continues to be needed.
- 2012–2014—The IESO Oversight Division audits payments made between 2006 to 2015 under the Program and finds $260 million paid to gas and coal generators was for possibly ineligible costs.
- 2015—The OEB Panel again recommends that the IESO define the eligible costs more precisely.
- April 20, 2016—IESO management submits a proposal to its Technical Panel to amend the market rules governing the Standby Cost Recovery Program. The amendments are to clarify and better define the operating and maintenance costs eligible for recovery, and to reduce the scope and frequency of audits conducted by the IESO Oversight Division (because clarifying and better defining eligible costs will reduce or eliminate generator claims for ineligible costs).
- September 13, 2016—At a public meeting held by the Technical Panel, IESO management tells the panel that generators are continuing to submit ineligible cost claims, that IESO staff are burdened with having to review these claims, and that these costs need to be more clearly defined for generators. Generators tell the Technical Panel that the IESO has not sufficiently consulted them on the changes it is considering making to the Standby Cost Recovery Program. The Technical Panel votes six to four against recommending to the IESO Board that changes be made to the Standby Cost Recovery Program. The rationale provided by the six members voting no is primarily that IESO management has not allowed generators to review the proposed changes and provide input on the technical details supporting them.
- October 2016–March 2017—The IESO obtains input from gas generators on the technical details, revises its proposed changes and resubmits them to the Technical Panel.
- March 21, 2017—The Technical Panel votes seven to four (with one abstention) in favour of recommending the changes to the IESO's Board for approval.
- April 2017—The IESO Board approves market rule changes to better define and pre-approve costs that generators can claim and to reduce the scope and frequency of audits of generator cost claims under the Standby Cost Recovery Program.
- May 2017—IESO management says to the Technical Panel that involving generators in the process of drafting technical details that support market rules (as was done between October 2016 and March 2017) contravenes its usual procedures.

In reviewing these events, we were particularly concerned about the involvement of generators in the process of drafting technical details that support market rules. This involvement was apparently based simply on generators' assertion that they were not sufficiently consulted on the changes to the technical details that support market rules—yet such consultation is not a normal procedure.

At the time of our audit, the IESO had not meaningfully addressed the recommendations made by the OEB Panel, and gas generators continued to be reimbursed for their operating and maintenance costs under the Standby Cost Recovery Program. We noted as well that neither had the Ontario

Energy Board used its authority to revoke the IESO Board–approved changes to the Program and send the changes back to the IESO for reconsideration on the basis that they are not in the best interest of ratepayers.

4.5.3 Market Participants Are Heavily Involved in the Market Renewal Process

In 2016, the IESO started a Market Renewal Initiative (Initiative) to address known issues with the current market design. These issues relate to the fact that, over the 15 years the market has been in place, two different schedules have governed its operations. One scheduling sequence determines market price based on an unconstrained transmission system. The second scheduling sequence considers transmission constraints to schedule which generator produces power. The "two-schedule" system was intended to be only temporary when the market opened in 2002, but this problem has not been resolved to date. This system also prompted the need for the Lost Profit Recovery Program and has resulted in the inefficiencies that have been reported by the OEB Panel and that we have highlighted in **Section 4.4**.

The IESO stated in a 2017 report published as part of the Market Renewal Initiative that one area the Initiative will specifically address is changes to the Lost Profit Recovery Program. The IESO told us that it expects to implement these changes sometime in 2022.

A 23-member working group is leading the Initiative, advising the IESO on strategic, policy and market design issues. Its members represent generators, consumers and other stakeholders.

Figure 14 shows the make-up of the working group. Some of the members that are on the working group are representing companies that have been found by the OEB Panel and/or the IESO Oversight Division to have misused market rules. More specifically:

- Goreway (whose representative is co-chairing the Initiative)—was found by the OEB Panel to have claimed ineligible or fabricated costs under the Standby Cost Recovery Program totalling $89 million and took advantage of market rules that govern the Lost Profit Recovery Program to obtain a substantial portion of the $11 million it received for lost profits that were not incurred. (See **Section 4.4.2** for details.)
- Resolute Forest Products—was found by the OEB Panel to have obtained $20.4 million by misusing market rules that govern the Lost Profit Recovery Program and was found by the IESO Oversight Division to have broken market rules by repeatedly submitting false bids to withdraw electricity from the grid when

Figure 14: Members of the Market Renewal Initiative Working Group as of October 1, 2017
Source of data: Independent Electricity System Operator (IESO)

Representing Generators	Representing Consumers	Representing Other Stakeholders
Co-Chair/Goreway Power Station	Co-Chair/Tembec	EnerNOC
Brookfield Renewable Power	Ivaco Rolling Mills	HQ Energy Marketing
Vacant	Gerdau	NRStor
NextEra	Resolute Forest Products	Energy Storage Canada
Northland Power	Association of Major Power Consumers in Ontario	Alectra
Ontario Power Generation	Vacant	Market Surveillance Panel
TransCanada Energy	Power Consumer	Opus One Solutions
Association of Power Producers of Ontario	Canadian Manufacturers and Exporters	Peak Power Energy
		Milton Hydro

it could not do so and by defying the IESO's dispatch instructions. (See **Section 4.4**.)

The 23-member working group also includes three other organizations that have or are being investigated by the IESO Oversight Division for misusing market rules:

- a market participant that was being investigated by the IESO Oversight Division at the time of our audit for major breaches of market rules that govern the Lost Profit Recovery Program involving a potential $20 million in related payments;
- a market participant that submitted ineligible cost claims under the Standby Cost Recovery Program that the IESO Oversight Division estimated to be about $51 million (see **Section 4.3**); and
- a market participant that claimed ineligible costs under the Standby Cost Recovery Program totalling $7.5 million (see **Section 4.3**).

Audit information and the names of market participants under investigation are designated confidential under the provisions of the Market Manual, market rules and the *Electricity Act, 1998*. We therefore do not disclose the names of these market participants in our report.

We also noted that the representation of consumers in the working group is weighted in favour of high-volume electricity consumers, as opposed to medium- and low-volume electricity consumers.

RECOMMENDATION 8

To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):

- immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;
- establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and
- publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.

IESO RESPONSE

The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal.

The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see **http://www.ieso.ca/sector-participants/engagement-initiatives/overview/engagement-principles**).

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate.

The IESO is also required by statute (the *Electricity Act, 1998*, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see **http://www.ieso.ca/-/media/files/ieso/document-library/sac/sac_tor.pdf**).

4.6 The IESO Oversight Division's Ability to Uncover Significant Rule Violations Is Limited

In addition to conducting its own market monitoring, the Oversight Division receives information from the IESO about suspicious or anomalous market activity that could signal rule violations. Market participants can also self-report rule violations. The Oversight Division investigates the activity and, if there was a violation, warns or fines the guilty party. **Figure 15** lists the range of possible sanctions that the Oversight Division can issue for rule violations.

4.6.1 Limited Investigations Have Uncovered Significant Rule Violations

The focus of the Oversight Division's investigations between 2003 and 2014 was on self-reported partial and full non-compliance of market rules: 341 investigations resulting in fines or payment recoveries were completed, and 70 market participants were issued fines totalling about $2.5 million.

In contrast, between 2015 and 2017, the focus shifted to major investigations; only three such investigations were completed, but they uncovered repeated non-compliance over an extended period: the total fines or settlements exceeded $30 million. **Figure 16** summarizes the investigation results.

The scale of these last three investigations was much larger than the earlier investigations, and there was less co-operation from the investigated market participants. The average time to complete them was three-and-a-half years.

4.6.2 IESO Oversight Division Under-Resourced, Resulting in a Backlog of Investigations

One reason for the large-scale investigations taking years to complete was the Oversight Division's lack of staff. Only two active investigators did the work. At the time of our audit, the Division Director had identified, out of a total 78 possible rule violations, five potential major violations requiring large-scale investigations. However, only one investigation was under way. Four others were suspended because of a lack of resources.

In addition, as of June 2017, the Division had a backlog of 43 investigations of minor breaches of market rules.

4.6.3 Ontario Has Similar Staffing to Alberta But Faces Greater Investigative Challenges

We conducted a comparison of Ontario's Oversight Division to the most comparable Canadian jurisdiction, Alberta. Alberta is the only other province that operates an electricity wholesale market and has a market oversight function that is similar to Ontario's.

We found that both provinces' oversight functions have similar levels of staffing. At the time of

Figure 15: Range of Possible Sanctions Issued by the Independent Electricity System Operator (IESO) Oversight Division

Source of data: Independent Electricity System Operator (IESO)

Level of Non-compliance	Level of Co-operation	Range of Sanctions per Breach
Partial compliance	Self-report, full co-operation	Warning letter or fine of up to $2,000
Full non-compliance	Self-report, full co-operation	Warning letter or fine of up to $4,000
	No self-report, partial co-operation	Warning letter or fine of up to $6,000
	No self-report, no co-operation	Fine of $1,000 to $10,000
Repeated full non-compliance*	Not applicable	Fine of up to $1,000,000

* Repeated non-compliance or a breach during a declared emergency or market suspension, or if the breach had an impact on market or electricity grid reliability.

Figure 16: Results of Three Large-Scale Investigations by Independent Electricity System Operator's (IESO) Oversight Division

Source of data: Independent Electricity System Operator (IESO)

Year Completed	Market Participant	Description of Breach	Settlement/Fine ($ million)
2017	Manitoba Hydro	From October 2011 to September 2012, Manitoba Hydro repeatedly breached market rules and submitted misleading market offers to sell electricity into the market and refused to co-operate during the investigation.	9.6
2016	Resolute Forest Products Inc. pulp and paper facilities in Fort Frances and Thunder Bay	From October 2004 to September 2013, Resolute repeatedly breached market rules and submitted false bids to withdraw electricity from the grid when it could not do so, and did not follow IESO's dispatch instructions.	10.6
2015	Goreway Power Station	Between June 10, 2009, and March 31, 2013, Goreway repeatedly made false claims to IESO's Cost Recovery Program totalling $12 million.	10.0*

* The IESO's Oversight Division negotiated settlements with Manitoba Hydro and Resolute Forest Products. In contrast, Goreway was fined an extra $10 million and repaid the $12 million as part of a larger negotiated settlement that was recovered from Goreway as a result of the audits of its claims under the Standby Cost Recovery Program.

our audit, the IESO Oversight Division had 14 full-time staff, while Alberta's oversight function had 12 full-time staff.

Working with about the same number of staff, however, Ontario has greater investigative challenges. Ontario's Standby Cost Recovery Program and the Lost Profit Recovery Program have presented a number of issues that required enforcement action and, as a result, required significant financial resources from the IESO Oversight Division. Similar programs with significant enforcement issues do not exist in Alberta's electricity wholesale market, which has resulted in less extensive investigative work by its staff, and far smaller fines issued, compared to Ontario. In 2015 and 2016, Alberta issued a combined total of 1,071 fines, averaging only about $230 each. Further, most rule violations in Alberta have been self-reported by market participants, not uncovered by large-scale investigations.

Adding to the comparison, Alberta's electricity market is only half the size of Ontario's: Alberta's installed generation capacity is about 16,300 MW, while Ontario's is about 36,500 MW, and Alberta's highest demand for electricity in 2016 was about 11,000 MW, versus Ontario's of about 23,200 MW.

4.6.4 High Employee Turnover in the IESO Oversight Division

At the time of our audit, the IESO Oversight Division had a budget to employ a total of 24 full-time staff and 10 temporary staff. We found that only 60% of these positions were filled—that is, 20 staff were employed at the Division (14 full-time and six temporary staff).

In Ontario, many staff hired for the temporary positions leave, contributing to an average staff turnover of almost 30% per year since 2012. This turnover has meant that new staff often lack the experience and need more time to conduct effective, thorough and in-depth investigations. This is a serious shortcoming given that, as detailed in **Section 4.6.1**, the focus of the Oversight Division has shifted to larger-scale, more challenging probes into significant non-compliant conduct by market participants.

RECOMMENDATION 9

To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper

oversight of the market, we recommend that the IESO:

- assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and
- attract and retain staff with experience in market rules and expertise in investigation.

IESO RESPONSE

The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities.

As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.

4.6.5 IESO Oversight Division Has No Explicitly Legislated Investigative Authority

The IESO Oversight Division has no explicit legislative authority to compel the subjects of its investigations to provide information. Instead, the Division must rely on market-rule-based obligations that are more limited than the investigatory powers given to the OEB Panel under the *Electricity Act, 1998*. This means that there is no way of ensuring that its investigations:

- uncover the full extent of rule violations committed by market participants; and
- issue appropriate penalties for those violations.

In contrast, under the *Electricity Act, 1998*, the OEB Panel is empowered to compel the subjects of its investigations to provide information. This means that the OEB Panel can obtain complete evidence to determine the full extent of market participants' behaviour. However, the OEB Panel is not empowered to sanction or fine the market participants it investigates. It can refer matters to the IESO Oversight Division.

The IESO Oversight Division must conduct its own investigations of these market participants, without explicit legislative authority to compel the subjects of its investigations to provide information.

As a result, for example:

- The Oversight Division was not able to uncover the full extent of rule violations committed by Manitoba Hydro, which in 2011 and 2012 submitted misleading offers to sell electricity (see **Figure 16**) and then, while being investigated by the Oversight Division, refused to answer some questions and provide requested information.
- The Oversight Division's ongoing investigation of one market participant for allegedly breaking market rules that govern the Lost Profit Recovery Program to gain an estimated $20 million has been prolonged and hampered by this market participant's refusal to provide some requested information.

RECOMMENDATION 10

To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative authority under the *Electricity Act* to compel information and evidence in the course of its investigations.

MINISTRY RESPONSE

The Ministry of Energy supports the vital role that the Oversight Division plays in investigating potential infractions in Ontario's electricity system.

To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with the Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.

4.6.6 IESO Oversight Division's Computer System Lacks Functionality

The Oversight Division uses a computer system developed in-house in 2003 to log, track and analyze information about possible breaches of market rules. When Oversight Division staff demonstrated the system to us, we found that it can no longer support the Oversight Division's oversight activities. For example:

- it lacks the basic functions needed to analyze trends in the information it contains;
- it is prone to freezing (it stopped working a number of times during the demonstration, and staff informed us that they were afraid the system would crash if they demonstrated certain functions); and
- staff are unable to enter fines issued to generators where the fine amounts are more than five digits.

At the time of our audit, the Oversight Division staff providing IT support for the system did not have IT expertise. As shown in **Figure 6**, the system is part of the larger administration system for the IESO; the IESO's IT Department provides support to the grid and market systems but not to the system used by the Oversight Division.

When we asked why the system had not been replaced, the IT Department and the Oversight Division's Director told us that plans were made in 2011 to replace it, but:

- the Oversight Division lacked staff with the skills needed to help implement a new system; and
- IT resources were too constrained as a result of the merger of the IESO and the OPA to procure the replacement.

In the absence of a sufficiently functional computer system, Oversight Division staff manually track and analyze some market activity information in spreadsheets. But due to a lack of resources, these spreadsheets are not always updated and the updates, entered manually, are prone to errors, which we identified when we reviewed them.

RECOMMENDATION 11

To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.

IESO RESPONSE

As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.

4.7 Oversight Division Not Independent of the IESO

Since market opening, a letter between the IESO CEO and the Oversight Division Director has delegated the IESO's rule enforcement responsibilities to the Oversight Division. The Oversight Division is empowered to investigate not just market participants for rule violations, but also the IESO itself. This makes it critical that the Oversight Division operates independently of the IESO.

The IESO Oversight Division is not fully independent given that IESO senior management is involved in Oversight Division activities and operations. For example:

- In one instance, we found that senior management was involved in negotiating a settlement with a generator to recover ineligible overpayments identified through the audits of the

Standby Cost Recovery Program (discussed in **Section 4.3**). In contrast, the Alberta Electricity System Operator has no direct involvement with Alberta's oversight function. Rather, the head of Alberta's oversight division is appointed by and reports directly to the Minister of Energy, who evaluates the performance of the division. This separation of functions would prevent Alberta's system operator from interfering with the activities of Alberta's oversight division. The instance we cite here is further inappropriate in that the IESO is considered a market participant under Ontario market rules, and the IESO Oversight Division even has the authority to sanction the IESO.

- The IESO's CEO is responsible for approving the Division's budgets and approving any budget increases. In Alberta, the Chair of the Alberta Utilities Commission (with similar functions to the Ontario Energy Board) approves its oversight division's yearly budget, which is then funded by Alberta's Electricity System Operator. To avoid any conflict of interest, the Chair of the Alberta Utilities Commission cannot sit on any commission proceedings that are initiated by Alberta's oversight division.
- In the United States, electricity markets are monitored and investigated by the Division of Energy Market Oversight that operates within the Federal Energy Regulatory Commission. The Commission is responsible for the regulation of the interstate transmission of electricity, natural gas and oil, and is an independent agency. Its members are appointed by the President of the United States with the advice and consent of the Senate.

RECOMMENDATION 12

To strengthen independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.

IESO RESPONSE

The IESO agrees with the Auditor General's recommendation.

The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.

5.0 Detailed Audit Observations—Cybersecurity

5.1 The IESO Lacks Dedicated Cybersecurity Resources

Given the realistic threat of a cyberattack on the operations of the IESO, best practices suggest that the IESO should have individuals specifically dedicated to ensuring that it is protected from a cyberattack. The qualified individuals need to be at the senior executive level as well as in the front lines of the organization. The IESO is lacking in both.

5.1.1 No Senior Executive Position Is Dedicated to Cybersecurity

The IESO does not have a designated senior executive responsible for cybersecurity.

Leading frameworks and good practice guidance such as COBIT 5 (which is a framework for the governance and management of enterprise IT) and NIST Special Publication 800-12 (which gives guidelines for maintaining the security of information travelling across networks) suggest that organizations appoint a senior official who is accountable for the security of all enterprise information and for defining, operating and monitoring a system for information security management. NIST Special

Publication 800-52 further recommends that this senior official be provided "resources to coordinate, develop, implement, and maintain an organization-wide information security program."

Comparable organizations that follow this best practice and have a dedicated senior executive solely responsible for reporting cybersecurity matters to senior executives and the Board of Directors include Hydro One and grid operators in New York, New England and California. In these cases, the senior executive position is the Chief Information Security Officer.

At the IESO, the most senior individual directly responsible for cybersecurity is a Team Lead who reports to the IT manager. The IT manager in turn reports to the Chief Information Officer, who reports to the Board. The problem with this is that the person with the most responsibility for cybersecurity does not have the authority to make the decisions needed to ensure the IESO has sufficient cybersecurity measures in place. Correspondingly, the people who do have the authority to make top-level decisions may not understand the impact their decisions will have on IESO cybersecurity.

RECOMMENDATION 13

To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.

IESO RESPONSE

The IESO agrees with the Auditor General's recommendation.

The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.

5.1.2 Number of Cybersecurity Staff Is under the Recommended Level

At the time of our audit, the IESO had four cybersecurity staff, a number that had not increased over the past decade. One of the four was eligible for retirement. However, during the past decade, IESO staff have almost doubled in number, and cyberattacks have become more sophisticated and frequent.

Having so few cybersecurity staff can increase the risk of the IESO falling prey to a cyberattack and responding to it too slowly. The risk is greatly increased should two cyberattacks happen at the same time. For example, in January 2017, hackers attacked a computer system that supported the operations of the former Ontario Power Authority (part of the IESO from the January 1, 2015, merger—see **Appendix 1**). The IESO's four cybersecurity staff worked overtime for several days to contain this one attack. If a second attack had been launched during this time, there would not have been sufficient staff to respond to it quickly enough.

Two external consultants who conducted separate reviews of the IESO's IT environment in 2015 and 2016 both recommended that the IESO should have at least seven dedicated cybersecurity staff.

An alternative to increasing the number of internal staff is to engage an external IT cybersecurity vendor to be on standby to provide immediate support or cybersecurity experts to help deal with a second or more sophisticated attack. The Alberta Electric System Operator has such a vendor on standby.

RECOMMENDATION 14

To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.

IESO RESPONSE

The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident.

5.1.3 Role of Cybersecurity in IT Planning Needs to Be Heightened

According to leading security intelligence organizations, having an independent cybersecurity department with clearly defined roles and responsibilities ensures that security is at the forefront of all IT project planning, reducing cybersecurity risks. The IESO does not have such a department, and it is up to the IT project managers to decide whether and when to involve cybersecurity staff in IT planning.

We found that in a number of instances, project managers involved cybersecurity staff only in the later stages of a project. This increased the risk that something was missed that could make the IESO more vulnerable to an attack or that costly redesigns would be necessary at the late stage when cybersecurity staff pointed out what had been missed.

For example, the IESO did not involve cybersecurity staff when it moved its email service to the cloud for external storage. It did not realize that the firewall needed to be updated to allow the external use of the cloud. After the move, the email service stopped working. Only when cybersecurity staff were brought in was the problem identified. The disruption to email and the additional time and cost taken to resolve the issue could have been avoided if cybersecurity staff had been consulted during the planning phase of the project.

The relatively low priority assigned to cybersecurity issues is also a problem when cybersecurity has to compete with other IT issues. For example, in March 2017, cybersecurity staff found that the IESO's cybersecurity technology was malfunctioning and asked the IT department to fix it. The IT department delayed the fix because of a shortage of resources and competing priorities, and the IESO's cybersecurity risk was heightened until the technology was fixed.

RECOMMENDATION 15

To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity Sector Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.

IESO RESPONSE

The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects.

5.2 No Centralized Control and Monitoring of User Access

The IESO's market system stores and processes an average of about 135,000 transactions involving confidential information per day. This makes the IESO a potential target for hackers wanting to access or steal this information.

Although the IESO has monitoring technology that works well to identify threats and risks in instances of spam and to block suspicious data traffic, we identified a weakness: the IESO's cybersecurity systems do not monitor the activities of privileged users in real time to proactively trigger alerts for unusual behaviour. About 14% of IESO employees have privileged-user access, meaning that they have almost unrestricted freedom to access any part of the computer system or network. Privileged users can abuse their authority and hack a system, or a hacker can try to steal the privileged user's log-in credentials and use them to launch a cyberattack.

Also, the IESO's cybersecurity system cannot support real-time analysis and investigation of certain types of breaches. In addition, because of the way some computer systems are connected, the cybersecurity system cannot record certain hacker activity during an attack.

This may have been a factor in a 2015 breach where the confidential contract information of one market participant was accessible to other participants for about seven minutes. The breach was not identified by the IESO but rather by a generator that alerted the IESO.

RECOMMENDATION 16

To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.

IESO RESPONSE

The IESO agrees with the Auditor General's recommendation.

The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year.

5.3 No Cybersecurity Policy for External Vendors

External vendors providing specialized IT services are usually given log-in credentials that then reside outside the IESO, increasing the risk of their being stolen and used by hackers to attempt a cyberattack. The IESO does not have a strong, uniform policy that holds vendors accountable for maintaining high security over these credentials.

Instead, each department is responsible for managing its own relationship with vendors and can decide whether or not to enforce cybersecurity requirements with vendors.

Also, the cybersecurity team does not review the contracts and does not assess on an ongoing basis the security risk of external vendors. Information security does perform an initial evaluation of third-party vendor risk but it also does not monitor this risk on an ongoing basis. Changes might occur in the vendor's environment that may introduce new unassessed risk to the IESO.

RECOMMENDATION 17

To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:

- the IESO establish an external vendor cybersecurity policy; and
- the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.

IESO RESPONSE

The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation.

5.4 Backup Tapes Not Adequately Protected

The IESO's policies pertaining to storage of its system backup information could be improved in two ways.

First, the tapes on which the IESO stores system backup information are not encrypted. This means that anyone accessing the tapes can access the information.

Second, some backup tapes are stored on-site. If the IESO's location were to sustain physical damage, the tapes could also be damaged. As a result, it would take the IESO longer to recover from a potential attack or natural disaster.

RECOMMENDATION 18

To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):

- properly encrypt all backup tapes; and
- store them in a secure off-site location.

IESO RESPONSE

The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre.

Appendix 1: Ontario's Electricity Grid—Key Events and Historical Outline

Prepared by the Office of the Auditor General of Ontario

Period	Key Events
1970–1980s	Ontario Hydro constructed the Bruce, Pickering and Darlington Nuclear Generation Stations. Construction delays reached 10 years and cost overruns reached billions of dollars.
1990–1992	Ontario experienced a recession that reduced electricity demand. Electricity rates increased by 40%, while generation capacity exceeded demand by 50%.
1993	The Ontario government froze electricity rates for almost the next 10 years. This caused Ontario Hydro's debt to rise.
1995	The government embarked on a program to transform the electricity industry from a government-owned Ontario Hydro to a competitive market-based structure.
1996	The government's Advisory Committee on Competition in Ontario's Electricity System delivered a report recommending the breakup of Ontario Hydro and a move toward a competitive electricity market.
1998	With the passage of the *Energy Competition Act, 1998*, Ontario Hydro ceased to exist. Ontario Hydro was replaced by five entities: • Ontario Power Generation (OPG), an electricity generator; • Hydro One Inc., responsible for the transmission and distribution of electricity to consumers; • the Ontario Electricity Financial Corporation (OEFC), responsible for retiring Ontario Hydro's debt; • the Independent Electricity Market Operator (IMO), the IESO's predecessor, responsible for operating the new electricity market; and • the Electrical Safety Authority, responsible for regulating electricity inspections.
1999	Ontario Energy Board (OEB), which had been regulating the province's natural gas sector since 1960, was tasked with regulating the electricity sector.
2002	The Electricity Wholesale Market opened on May 1, 2002. Following the market opening, with a potential shortage of supply and an increased demand for electricity during the summer of 2002, electricity rates began to increase significantly. The government passed the *Electricity Pricing, Conservation and Supply Act, 2002* on December 9, 2002, to freeze electricity rates for most consumers until 2005.
2003	The Electricity Conservation and Supply Task Force was set up to create an action plan to attract new generators in Ontario. The task force projected that as early as 2006, Ontario might not have enough power to meet peak demand. It recommended a future electricity sector that relied less on the competitive market price of electricity and more on long-term contract pricing.
2004	The government passed the *Electricity Restructuring Act, 2004*, to create the Ontario Power Authority, which became responsible for long-term planning and procurement of power under long-term contracts.
2005	In May 2005, the government ended the electricity price freeze and the OEB's Regulated Price Plan took effect; the plan was designed such that the rate charged to residential and small-business consumers approximately reflects the full cost of electricity.
2007–2009	The government ordered the closing of coal-fired plants by December 31, 2014. The *Green Energy and Green Economy Act, 2009* empowered the OPA in the renewable energy field.
2015	The IESO merged with the OPA and acquired responsibility for long-term planning, procurement and conservation efforts.

Historical Outline

Government's Control of Electricity Until 2002

Prior to the 1980s, having the government supply electricity was viewed as the most cost-effective way to provide electricity to consumers. The government's provision of electricity was seen as a natural monopoly. This precluded the entry of the private sector, since the lack of competition would greatly reduce the chance to make a profit.

The government-owned company that used to provide Ontario's electricity was called Ontario Hydro. In the 1970s and 1980s, Ontario Hydro constructed the Bruce, Pickering and Darlington Nuclear Generation Stations. Construction delays stretched to 10 years and cost overruns reached billions.

The Ontario government faced a new challenge in the early 1990s with a recession that reduced electricity demand. Electricity rates increased by 40%, while generation capacity exceeded demand by 50%. In response, in 1993, the government froze electricity rates for almost the next 10 years. This caused Ontario Hydro's debt to rise even higher. Over the next five years, Ontario Hydro's total long-term debt increased from $33 billion to $38.1 billion.

Advances in generation technology and the expansion of the transmission system during this period challenged the view that electricity was best provided by government. The idea grew that electricity generation could be a competitive enterprise. Beginning in the 1990s, in response to rising electricity prices, several jurisdictions around the world, including the United States, began to create electricity wholesale markets where electricity became viewed as a commodity that could by bought and sold. The vision was that private-sector involvement in these competitive markets would lead to efficiencies that would result in lower electricity prices.

The Move toward a Competitive Electricity Market in Ontario

In 1995, the government embarked on a program to transform the electricity industry from government-owned Ontario Hydro to a structure based on a competitive market. In 1996, the government's Advisory Committee on Competition in Ontario's Electricity System delivered a report recommending the break-up of Ontario Hydro to accomplish this. In 1998, with the passage of the *Energy Competition Act*, Ontario Hydro was replaced by five organizations:

- Ontario Power Generation (OPG), an electricity generator;
- Hydro One Inc., responsible for the transmission and distribution of electricity to consumers;
- the Ontario Electricity Financial Corporation (OEFC), responsible for retiring Ontario Hydro's debt;
- the Independent Electricity Market Operator (IMO), the IESO's predecessor, responsible for operating the new electricity market; and
- the Electrical Safety Authority, responsible for regulating electricity inspections.

In 1999, the Ontario Energy Board, which had been regulating the province's natural-gas sector since 1960, was tasked with regulating the electricity sector.

Ontario's electricity market opened on May 1, 2002. Almost immediately, electricity rates began to increase significantly, from about 3 cents per kilowatt hour (/kWh) to over 8 cents/kWh by August 2002. In response to pressure from consumers distressed over high prices, the government passed the *Electricity Pricing, Conservation and Supply Act*. This Act froze electricity rates for most consumers at 4.3 cents/kWh effective December 9, 2002. The market continued to operate, but the government paid the difference between the higher market price and the lower frozen rate charged to consumers until May 2005.

Other jurisdictions that have tried to set up a wholly competitive market have had similar experiences to Ontario. Only when demand is high and supply is low can the price rise high enough to enable generators to recover all their costs just through the market price. The rest of the time, it would not be economical for generators to operate, which would force them out of business and risk electricity shortages. In North America, only the state of Texas has been able, for the most part, to successfully implement an electricity market where generators recover most of their costs from the market price. In all other jurisdictions, some other mechanism besides market price has been set up for generators to recover their costs.

The Need to Attract New Generators in Ontario

In June 2003, the government established the Electricity Conservation and Supply Task Force. It determined that a number of factors had contributed to a climate of regulatory and financial uncertainty that was deterring private-sector investment in Ontario's electricity sector. Those factors included:

- numerous delays in opening the market (it took five years from when government committed to it to when it opened);
- the subsequent rate freeze; and
- the collapse of Enron, a large publicly traded American company involved in wholesale trading of electricity that engaged in elaborate, systematic accounting fraud, which led to scandal, its bankruptcy in 2001 and the shutdown of Arthur Andersen, one of the country's biggest accounting firms, after being found guilty of criminal charges for how it handled its audits of Enron.

At the same time that the private sector was wary of participating in Ontario's electricity sector, the province was facing a potential looming electricity supply shortfall. Nuclear plants were approaching the end of their operating lives and would need to be temporarily shut down for refurbishment. The task force projected that as early as 2006, Ontario might not have enough power to meet peak demand. It recommended a future electricity sector that relied less on the competitive market price of electricity and more on long-term contract pricing.

Most of the task force's recommendations were adopted by the government in the *Electricity Restructuring Act*, passed in December 2004. This Act created the Ontario Power Authority (OPA), responsible for long-term planning and procuring power under long-term contracts starting in 2005. The contracts signed with generators typically covered a 20-year period (for gas, wind and solar generators) or even longer (for nuclear and hydroelectric generators). Generators receive guaranteed payments during the life of the contracts.

In May 2005, the Ontario Energy Board's Regulated Electricity Price Plan took effect. This plan unfroze electricity rates; it was designed such that the rate charged to residential and small-business consumers approximately reflects the full cost of electricity.

Under this framework of an electricity market with limited competitiveness, long-term contracts guaranteeing payments to generators, and regulated electricity prices, the government continued bringing on new generators. In 2007, it issued a regulation requiring Ontario's four coal-fired power plants to stop burning coal by December 31, 2014. In 2009, it passed the *Green Energy and Green Economy Act*, which empowered the OPA to procure renewable energy and to streamline the development of renewable energy projects.

The Merging of the IESO and the OPA

In 2015, through amendments to the *Electricity Act*, the IESO merged with the OPA. This meant that, in addition to operating the electricity grid and administering the electricity market, the IESO is now also responsible for long-term planning, procurement and conservation efforts.

Appendix 2: Audit Objectives and Criteria

Prepared by the Office of the Auditor General of Ontario

Audit Objective

To assess whether the Independent Electricity System Operator (IESO) has effective systems and processes in place to ensure that:

- oversight of electricity market participants is sufficient and that participants operate in accordance with market rules; and
- critical IT assets and infrastructure are protected so that the reliability of the grid is maintained.

Audit Criteria

- Roles and responsibilities are clearly defined and accountability requirements are established to facilitate monitoring of the electricity market and reliability of the grid, in accordance with legislative, contractual and program requirements.
- Cost-effective procedures, controls and processes are in place to monitor the electricity market in accordance with market rules.
- Current evidence and best practices are used to inform the development of strategies, action plans and programs to maintain reliability of the electricity grid.
- Appropriate procedures, controls and processes are in place to detect security attacks, threats, weaknesses and vulnerabilities, and assess their impact on IESO's security posture while supporting key program objectives.

Appendix 3: Glossary of Terms

Prepared by the Office of the Auditor General of Ontario

Section 1: Market Oversight
Alberta Electricity System Operator (AESO): the independent operator of Alberta's electric system. The mandate of the AESO under the *Electric Utilities Act, 2003*, is to direct the reliable operation of the Alberta interconnected electric system, plan the transmission system and operate the wholesale electricity market. The AESO also evaluates Alberta's current and short-term electricity needs, and the adequacy and reliability of the integrated power system to meet those needs.
Alberta Market Surveillance Administrator (MSA): established in 2007, the Market Surveillance Administrator is a monitor, reporter, investigator and adviser for Alberta's electricity industry. One of the MSA's roles is to protect and promote the fair, efficient and openly competitive operation of Alberta's wholesale and retail electricity markets.
Alberta Utilities Commission (AUC): an independent, quasi-judicial agency of Alberta that regulates the utilities sector, and is responsible for ensuring that the delivery of Alberta's utility service is fair, responsible and in the public interest.
Analysis and Investigations Unit: the term used in this report to refer to the Market Assessment and Investigations Unit. This is the independent unit that supports the Ontario Energy Board's (OEB) Market Surveillance Panel (Panel). In 2005, the Independent Electricity System Operator (IESO) and the OEB established a protocol where employees of the IESO's Market Assessment and Compliance Division (Oversight Division) would assist the OEB Panel in carrying out its functions. The IESO established the Analysis and Investigations Unit to carry out this role, which is housed in the IESO's Oversight Division.
bid: in the wholesale electricity market, the price quoted for an immediate purchase of electricity. Retailers, distribution system owners and other market participants submit bids to purchase electricity from the power pool (wholesale market).
bioenergy: energy produced from a biomass living or recently living plant or animal source, such as waste, wood, agricultural residues, animal manure, food processing by-products and kitchen waste.
capacity: (1) a measure (in megawatts) of the output of a power plant. (2) the maximum sustainable amount of electricity that can be generated or carried in an instant. (3) the amount of electricity delivered to or required by an electric system component such as a power plant, turbine or transmission circuit.
coal-fired power plant: a type of power plant that makes use of the combustion of coal in order to generate electricity.
congestion: a situation that arises when there is a mismatch between power offered and the ability of the transmission lines to deliver that power, blocking the path between generators and consumers. A congested transmission system is a bit like a traffic jam on a highway. Too much electricity running through the system at a particular point in time limits the ability of some generators to move their power to various locations.
conservation (of electricity): any activity that reduces the amount of electricity used overall, or shifts the consumption of electricity from a peak time to a time of lower demand. Conservation includes energy efficiency, demand management, fuel switching and customer-based generation.
distribution system: a network that carries electricity from the transmission system and delivers it to consumers. Typically, the network would include medium-voltage power lines, substations and pole-mounted transformers, low-voltage distribution wiring and electricity meters.
dispatch instructions: physical operating instructions issued by the Independent Electricity System Operator either in the real-time dispatch process or in those dispatch intervals when administrative prices were applied.
dispatchable: a term describing generation sources that can increase or decrease their output when requested as demand fluctuates or the availability of other sources changes. Dispatchable generators submit offers to supply electricity in different quantities and prices for each hour of the day. They must be able to adjust the amount of electricity they generate in response to new instructions issued every five minutes by the Independent Electricity System Operator. An example of a dispatchable generation source is natural gas.
Eastern Interconnection Electricity Grid: the alternating-current power grid (or "interconnection") that reaches from Central Canada eastward to the Atlantic coast (excluding Québec), south to Florida and west to the foot of the Rockies (excluding most of Texas). It is one of the two major interconnections in North America (along with three minor interconnections). All of the electric utilities in the Eastern Interconnection are electrically tied together during normal system conditions and operate at a synchronized frequency operating at an average of 60 Hertz.
Electricity Act, 1998: Ontario legislation to ensure the adequacy, safety, sustainability and reliability of electricity supply in the province.
Electricity Charge: the charge shown on consumer electricity bills that incorporates both the Hourly Ontario Energy Price and global adjustment fees.

Electricity Conservation and Supply Task Force (ECSTF): a task force formed in response to the August 2003 blackout in eastern North America to provide recommendations on the current market approach.
electricity demand: the rate at which electric energy is delivered to or by a system or part of a system, generally expressed in kilowatts or megawatts, at a given instant or averaged over any designated interval of time.
electricity grid: a centrally operated, interconnected network of generating plants, substations and power lines. Also referred to as an **electricity system** and a **transmission system**.
electricity supply: in Ontario, the energy supplied to the market by generators located within Ontario and by imports from neighboring jurisdictions.
electricity system: the interconnected system of generating plants, substations and power lines that carries electricity from producers to consumers. Also referred to as an **electricity grid** and a **transmission system**.
energy storage: the collection of energy so it can be used at a later date. Examples include batteries and hydro-electric dams.
Federal Energy Regulatory Commission (FERC): an independent agency in the United States that regulates the interstate transmission of electricity, natural gas and oil. FERC also reviews proposals to build interstate natural gas pipelines, natural gas storage projects and liquefied natural gas terminals; and licenses non-federal hydro power projects. The Energy Policy Act of 2005 gave FERC authority to oversee the reliability of the bulk power system. This includes the authority to approve mandatory cyber security reliability standards.
Feed-In Tariff Program: a program to procure renewable energy launched in September 2009 under the direction of the Minister of Energy, providing renewable energy generators with significantly higher contract prices than the previous procurement initiative, the Renewable Energy Standard Offer Program (RESOP), which it replaced.
generation: the production of electricity.
generation capacity: the amount of capacity available to generate power at a time of peak electricity demand.
generator: a company that produces electricity and feeds electricity into the Ontario electricity grid. Ontario Power Generation, a Crown corporation, is Ontario's largest power generator, operating electricity-producing stations throughout Ontario. Over the North American bulk electricity system, electricity can also be received from out-of-province power generators
global adjustment: a component of electricity bills whose amount is calculated to make up the difference between the revenues obtained from the electricity market price and the total payments made to regulated and contracted generators (whose prices are guaranteed) and the former Ontario Power Authority's conservation programs.
Green Energy and Green Economy Act: the Act enacted in May 2009 with provisions intended to attract investment in renewable energy, promote a culture of energy conservation, create a competitive business environment, increase job opportunities and reduce greenhouse gas emissions.
Hourly Ontario Electricity Price (HOEP): in the electricity market administered by the Independent Electricity System Operator, the HOEP is charged to local distribution companies and other non-dispatchable loads, and paid to self-scheduling generators. Businesses that use more than 250,000 kilowatt hours (kWh) per year pay the hourly price. The HOEP is also the basis for regulated rates charged to residential and small business customers. The HOEP values are reported as dollars per MegaWatt hour ($/MWh).
hydroelectric generation: a type of power generation that converts the energy of falling or flowing water into electricity.
IESO Oversight Division: the term used in this report to refer to the Independent Electricity System Operator's Market Assessment and Compliance Division.
Independent Electricity System Operator (IESO): the administrator of the Ontario wholesale electricity market to match electricity supply with demand. Also responsible for forecasting Ontario's long- and short-term electricity requirements and providing direction to electricity transmitters and distributors on the capital work needed to increase the capacity of Ontario's electricity system.
IESO-administered grid: the portion of the Ontario transmission system that is controlled by the Independent Electricity System Operator (IESO). This includes all transmission lines equal or greater than 50 kiloVolts. These are high-voltage transmission lines that provide wholesale electricity to large industrial consumers, and to distributors who then provide electricity at the retail level.
installed generation capacity: the maximum intended power output from a facility.
kilowatt (kW): a standard unit of power equal to 1,000 watts (W).
kilowatt hour (kWh): a way of measuring energy production or consumption over time. A kilowatt hour measures 1,000 watts produced or consumed in one hour.
large industrial consumers: electricity consumers that are connected to the high-voltage grid and purchase wholesale electricity from the Ontario electricity market.
local distribution companies (LDCs): companies that own and operate infrastructure to convert high-voltage electricity to lower-voltage electricity through the use of transformers, and deliver electricity through distribution lines to residential and small business customers.

Lost Profit Recovery Program: the term used in this report to refer to Congestion Management Settlement Credits (CMSCs). These credits are out-of-market payments made to suppliers (generators and importers) and dispatchable consumers (dispatchable loads and exporters) in the IESO-administered markets. CMSCs are paid to these participants whenever they are constrained on or off. They are constrained on or off whenever their market schedule and dispatch schedule quantities are different.

market design flaw: a defect in the market design, poorly specified rules or procedures, or a gap in the market rules or procedures that creates opportunities for exploitation by market participants without necessarily involving breaches of market rules.

market participant: an entity authorized by market rules to participate in the IESO-administered market or to cause or permit electricity to be transmitted into, through or out of the IESO-controlled grid.

market price: the price of energy or operating reserve determined in the real-time electricity market.

Market Renewal Initiative Working Group (MRWG): a representative stakeholder forum to guide, advise and inform the Independent Electricity System Operator (IESO) on important strategic, policy and design issues that will impact the overall success of the IESO's Market Renewal Initiative.

market rules: the rules that govern the operation of the wholesale electricity market in Ontario, administered by the Independent Electricity System Operator (IESO). Market rules define the roles and obligations of the IESO and all market participants that own or operate elements and facilities in the electricity grid. In order to participate in the market, participants must comply with all market rules and applicable reliability standards. Failure to comply with the standards can result in sanctions issued by the IESO Oversight Division.

market schedule: the dispatch schedule that would have resulted in the absence of transmission constraints on the IESO-controlled grid.

megawatt (MW): a standard unit of power equal to 1,000 kilowatts (kW) or 1 million watts (W).

megawatt hours: a way of measuring energy production or consumption over time. A megawatt hour (MWh) measures 1 million watts produced or consumed in one hour.

Ministry of Energy: the Ontario government ministry responsible for setting the legislative and policy framework to assure a clean, reliable and affordable energy system for all Ontarians. It develops and advises on all aspects of energy policy for Ontario, including policies for electricity, natural gas and oil. It oversees the Ontario Energy Board and the Independent Electricity System Operator, and represents the shareholder–the provincial government–in dealings with Hydro One and Ontario Power Generation.

net exporter of electricity: a jurisdiction that exports more electricity than it imports. Ontario is an example. Ontario imports electricity, primarily from its neighboring provinces of Québec and Manitoba, and exports electricity, primarily to Michigan and New York State.

North American Electricity Reliability Corporation (NERC): a not-for-profit regulatory authority whose mission is to assure the reliability of North America's bulk electricity system. NERC develops and enforces reliability standards that must be followed by North American electricity transmitters.

nuclear power: power derived from the use of nuclear reactions that release nuclear energy to generate heat, which most frequently is then used in steam turbines to produce electricity in a nuclear power plant.

Ontario Energy Board (OEB): the regulator of electricity and natural gas in Ontario. OEB's objective is to promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers in obtaining reliable energy services at a reasonable cost. It licenses electrical generators, transmitters and distributors, and sets rules that they must follow. It also approves the rates that electrical utilities can charge their customers, as well as the construction of any electrical transmission lines that are more than two kilometres long.

OEB Panel: the term used in this report to refer to the Market Surveillance Panel (MSP). The MSP is housed under the Ontario Energy Board, and consists of three part-time panel members including a panel Chair, and is supported by the Analysis and Investigations Unit from the IESO Oversight Division. The MSP is mandated to monitor and report on the following:

1. inappropriate or anomalous conduct by market participants, including gaming behaviour;
2. whether IESO activities have had an impact on market efficiencies or effective competition;
3. whether the market rules or IESO rules and procedures are flawed or inefficient; and
4. market design flaws or whether other aspects of the structure of the IESO-administered markets are consistent with the efficient and fair operation of a competitive market.

Ontario Power Authority (OPA): the entity formerly responsible for forecasting electricity demand and procuring electricity supply to meet the province's power needs.

Ontario Power Generation (OPG): an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Its focuses are the efficient production and sale of electricity from its generation assets, and maintaining a safe, open and environmentally responsible operation.

peak capacity: the maximum power output for which a generating unit, generating station or other electrical apparatus is rated. Common units include kilowatts (kW) and megawatts (MW). Also used to refer to the maximum potential output for the entire electricity system.

peak demand: the maximum amount of electricity used on the system in any given time period. Peak demand can be measured per hour for a customer, a group of customers or the system as a whole. Also a measure of the amount of power needed to serve all customers during times of high power use. Peak demand is measured in kilowatts (kW) or megawatts (MW). It is often stated as the highest hourly consumption of electricity during a year

procurement: the purchase of electrical energy for resale to consumers.

ramp up/down: the rate at which a generator or load can change from one level of production or consumption to a different level of production or consumption. For example, if a generator can move from a production level of 50 MW at the beginning of a five-minute dispatch interval to 100 MW at the end of the five-minute dispatch schedule, the generator has a ramp rate of 10 MW per minute.

rate regulation: the process by which regulatory bodies determine the rates charged to customers in regulated industries, including gas and electricity. In Ontario, the Ontario Energy Board (OEB) sets rates for natural gas distribution and electricity transmission and distribution based on cost estimates submitted by the utilities and allowances of an approved capital structure and return on capital. These costs are scrutinized by the OEB prior to setting rates.

real time: the actual time when a process (such as electricity generation) occurs.

Regulated Price Plan: A time-of-use pricing plan for residential and small-business consumers developed by the Ontario Energy Board that sets the prices for electricity during peak, off-peak and mid-peak periods of the day.

renewable energy: energy generated by natural processes, the four major forms of which are hydro (energy generated from the movement of water), wind (energy generated by turbines from air currents), solar (energy generated by photovoltaic cells that capture radiant light and heat from the sun) and bioenergy (energy generated by burning organic forestry residues and agriculture wastes).

renewable energy generation facility: a generation facility that generates electricity from a renewable energy source.

residential and small-business consumers: electricity consumers that pay time-of-use rates, which offer different prices for on-peak, mid-peak and off-peak periods. This pricing structure encourages users to shift some of their usage from high-price peak hours to less expensive off-peak hours and reduce their impact on the system.

side payments: a term used by the OEB Panel in its reports to describe payments like Congestion Management Settlement Credits (CMSCs).

solar power: the radiant energy of the sun that can be converted into other forms of energy, such as heat (solar thermal) or electricity (photovoltaic).

sanction: an action taken by the IESO Oversight Division against a market participant found to be in breach of market rules or reliability standards. Sanctions range from non-compliance letters to financial penalties. Persistent breaches may result in de-registration, suspension or termination of the right to participate in the market.

Standby Cost Recovery Program: the term used in this report to refer to the Real-Time Generation Cost Guarantee Program.

submitting bids/offers: the bids and offers settled every five minutes in the wholesale electricity market, resulting in the Market Clearing Price (MCP). For each five-minute interval, dispatch instructions specify the required amount of energy that sellers should add into or buyers should withdraw from the IESO-controlled grid based on their accepted offers and bids.

Technical Panel: a group that proposes and reviews amendments to market rules and, if requested, advises the Independent Electricity System Operator Board of Directors on specific technical issues relating to the operation of IESO-administered markets.

transmission: the transfer of high-voltage electricity over interconnecting lines that link points of supply to points where energy is delivered to other electric systems or transformed to low voltage for distribution to consumers

transmission lines: the movement of electricity at high voltages from generation sites to local distribution systems and consumers.

transmitter: an electrical utility, such as Hydro One, that transfers electricity over long distances at voltages above 50 kilovolts between electricity generators (such as Ontario Power Generation) and local distribution companies or large industrial users.

two-schedule electricity market: the electricity wholesale market design used in Ontario. It consists of two dispatch algorithms: the market algorithm and the dispatch algorithm. The market algorithm balances electricity supply and demand assuming no internal congestion constraints, and determines the uniform Market Clearing Price (MCP) used for settlement purposes. The dispatch algorithm recognizes internal congestion constraints and re-dispatches generation and dispatchable load so as to respect all constraints.

wholesale electricity market: the market in which electricity is sold to retail companies or provided to distributors, which pass through the price to their customers.
wind power: electricity produced from a system of airfoils or blades that capture the energy of the wind to spin a drive shaft to run an electricity generator.

Section 2: Cybersecurity
backup information: files, equipment, data and procedures available for use in the event of a failure or loss, if the originals are destroyed or out of service.
backup tapes: the tapes on which data from a primary storage device is periodically copied so the data can be recovered if there is a hard disk crash or failure
cloud storage: convenient, on-demand network access to a shared pool of resources that can be rapidly provisioned and released with minimal management effort or service-provider interaction.
COBIT 5: a complete, internationally accepted framework for governing and managing enterprise information and technology (IT) that supports enterprise executives and management in their definition and achievement of business goals and related IT goals. COBIT describes five principles and seven enablers that support enterprises in the development, implementation, and continuous improvement and monitoring of good IT-related governance and management practices.
cyberattack: an assault against a computer system or network.
cybersecurity: the protection of information assets by addressing threats to information processed, stored and transported by internetworked information systems.
cybersecurity governance: a governance view that ensures that information and related technology support and enable the enterprise strategy and the achievement of enterprise objectives; this also includes the functional governance of information technology (IT), i.e., ensuring that IT capabilities are provided efficiently and effectively.
data breach: an incident wherein information is stolen or taken from a system without the knowledge or authorization of the system's owner.
data traffic: typically refers to overall network usage at a given moment. However, it can refer to specific transactions, messages, records or users in any kind of data or telephone network.
encryption: the process of taking an unencrypted message (plaintext), applying a mathematical function to it (encryption algorithm with a key) and producing an encrypted message (ciphertext).
firewall: a system or combination of systems that enforces a boundary between two or more networks, typically forming a barrier between a secure and an open environment such as the Internet.
hackers: individuals who attempt to gain unauthorized access to a computer system.
Information Technology (IT): the hardware, software, communication and other facilities used to input, store, process, transmit and output data in whatever form.
IT cybersecurity vendor: an organization that sells cybersecurity. Refers to both manufacturers and distributors as long as they sell cybersecurity products to the general public.
IT environment: the set of hardware, software and facilities that integrates an enterprise's IT assets.
IT projects: a structured set of activities concerned with delivering a defined capability (that is necessary but not sufficient to achieve a required business outcome) to the enterprise based on an agreed-on schedule and budget.
login credentials: one of three types of identity data. Login credentials to a managed system usually consist of a user ID and password. Identification may also involve a PKI certificate, and authentication may use tokens, biometrics or a set of personal questions that the user must answer.
NIST Special Publication: a type of publication issued by National Institute of Standards and Technology. The Special Publication 800-12 reports on the Information Technology Laboratory's research, guideline, and outreach efforts in computer security, and its collaborative activities with industry, government, and academic organizations.
privileged users: users who, by virtue of function and/or seniority, have been allocated powers within the computer system that are significantly greater than those available to the majority of users.
security intelligence organizations: organizations that analyze and refine information about potential or current attacks that threaten an organization's security.
spam: computer-generated messages sent as unsolicited advertising.

Ministry of Health and Long-Term Care

Laboratory Services in the Health Sector

1.0 Summary

Laboratory services involve the collection, testing and analysis of a patient's specimen (such as blood, urine or stool) for health-care professionals to make decisions on the diagnosis and treatment of their patients. Various studies note that laboratory tests inform and guide over 70% of medical decisions.

Ontario has about 540 specimen collection centres (collection centres) where specimens are collected from patients, and about 200 laboratories where the collected specimens are analyzed. In 2015/16, the Ministry of Health and Long-Term Care (Ministry) spent about $2 billion funding 260 million tests performed by four types of laboratory service providers, including:

1. community laboratories (operated by private companies);
2. hospital laboratories;
3. authorized health-care professionals (mainly physicians) who perform tests in their own offices; and
4. Public Health Ontario laboratories.

Health-care professionals are responsible for ordering laboratory tests for their patients.

Depending on the type of test ordered and the location of the health-care professional (within a hospital or in a community), specimens needed for testing are obtained from patients in different ways. Generally:

- Patients seen by authorized health-care professionals practising in their communities can go to any collection centre operated by community laboratory service providers.
- Patients seen by their health-care professionals practising in a hospital (hospital outpatients) go to the hospital collection centre.
- Patients staying in hospitals (in-patients) will have their specimens collected directly from their rooms.
- Patients seen by authorized health-care professionals who have the ability to perform simple tests (such as urine dipstick analysis to detect pregnancy and drugs) can have their specimens collected directly in their health-care professionals' offices.

Once the specimens are collected from patients, they are sent to a laboratory for analysis. In addition to community and hospital laboratories, Public Health Ontario laboratories also perform testing for infectious diseases (such as HIV and hepatitis), either to identify the presence of a disease or to confirm test results for community or hospital laboratories by re-testing specimens. Regardless of the type of laboratory that performs the test, the laboratory sends the test results back to the health-care professionals who ordered the tests, who will make diagnostic and treatment decisions for their patients.

All community, hospital and Public Health Ontario laboratories operate under the *Laboratory and Specimen Collection Centre Licensing Act*, which requires all laboratories and collection centres to be licensed by the Ministry. To be licensed, all laboratories and collection centres must participate in the quality management program operated by the Institute for Quality Management in Healthcare (Institute), which is a subsidiary of the Ontario Medical Association (OMA). The Ministry funds the Institute (about $4.7 million annually) to deliver the quality management program, which involves two main components: accreditation (to ensure that laboratories have good procedures and processes in place), and proficiency testing (to ensure that laboratory processes provide accurate test results).

Our audit found that laboratory services are generally provided to Ontarians safely, and accurate laboratory tests results are generally provided to health-care professionals in a timely manner. Despite these successes, several areas relating to cost-effectiveness, accessibility, and performance measurement and reporting of laboratory services need improvement.

Our audit also found that the Ministry has managed Ontario's laboratory sector in a fragmented manner with funding, planning and oversight functions taking place in several departments and at varying levels across the Ministry, depending on the type of laboratory service provider. The following are some of our significant observations.

One important set of issues relates generally to cost to the Ministry and to patients.

- **Outdated laboratory test price list resulted in overpayments to community laboratory service providers.** While technological advancements have led to significant automation and cost reduction for many tests, the Ministry has not made any major updates to its price list (which defines the type and price of each test that the Ministry pays community laboratories to perform) since 1999. It only plans to implement a new price list in 2017/18. We found that if the new price list had been in effect in 2015/16, the Ministry would have paid community laboratory service providers about $39 million less than it actually paid in that year alone. A 2015 report by a stakeholder group (composed of some smaller community laboratory service providers, non-profit organizations, physicians and patient groups) also estimated that the government may have overpaid certain community laboratory service providers over the past 15 years as a result of the price list not accurately reflecting the actual costs of these service providers.
- **Price list not updated using all relevant cost data.** In 2016, the Ministry hired a consulting firm to help review and update its community laboratory test price list. The consulting firm obtained data from various laboratory service providers, including laboratory service providers in the United States and one community laboratory service provider in Ontario that accounted for less than one-third of the provincial community laboratory test volume. The data used by the consulting firm did not include cost information from the two largest community laboratory service providers in Ontario as they chose not to provide this information to the Ministry. These community laboratory service providers receive the majority of the Ministry's total funding to community laboratories. Without collecting cost data from these large community laboratories, which can achieve economies of scale and lower overall costs per test by performing a large volume of tests, the Ministry does not know if the consulting firm did a reasonable analysis of expected profit margins and cost information in updating the price list.
- **Medically necessary tests remain uninsured.** In 2015/16, health-care professionals in Ontario ordered about 1.1 million laboratory tests that were not funded by the Ministry. Patients generally had to pay

community laboratory service providers for these uninsured tests out-of-pocket or through their private insurance. The Ministry has not regularly evaluated whether currently uninsured tests should be funded, even though many of these tests have become more widely accepted as medically necessary and are often funded by other provinces. In 2016, however, the Ministry did engage a consulting firm that identified 16 uninsured tests (such as a test that is used to measure the amount of protein cancer antigen 125 in a patient's blood) that it recommended the Ministry start funding. The Ministry did not implement this recommendation and has no timetable to do so. We noted that many of these 16 tests are insured in other provinces.

- **More action needed to reduce unnecessary testing.** Unnecessary testing results in the overuse of laboratory services, wasting patients' time and health-care costs. We found that the Ministry's actions to reduce unnecessary testing, especially relating to vitamin D testing and aspartate aminotransferase (AST) testing (usually used to identify liver damage), did not result in effective or sustainable long-term reductions in testing. Ontario studies found that both of these tests were being ordered in situations where the result was not useful in improving the health of a patient. In 2010, the Ministry restricted unnecessary vitamin D testing at community laboratories, which dropped initially (from about 760,000 tests in 2009/10 to 173,000 tests in 2011/12) but increased again, more than doubling between 2011/12 and 2015/16 (to about 385,000 tests), while all other types of tests increased only about 1%. In 2013, the Ministry implemented eligibility criteria to reduce unnecessary AST testing; however, a few years after implementation, a group representing several community laboratory service providers submitted a report to the Ministry suggesting that almost 1.5 million AST tests (costing about $3.8 million) conducted between April 2014 and March 2015 potentially provided no clinical value.

We also noted issues related to the cost of genetic testing and regional inequities in the availability of laboratory services.

- **Inadequate strategy for genetic testing results in costly out-of-country testing.** The Ministry's approach to deal with the growing demand for genetic testing (used to examine a person's genetic material such as DNA) has not been cost-effective. While physicians can apply on behalf of their patients for the Ministry's out-of-country program for genetic testing, the associated costs are significant. Between 2011/12 and 2015/16, out-of-country genetic tests almost doubled and the associated costs increased by about 80%. During this period, Ontario paid over US$120 million related to over 54,000 specimens that were sent out of the country. While the Ministry's cost to perform some genetic tests would be cheaper if these tests were brought in-province, the Ministry's current strategy to increase the number of tests done in-province is still preliminary. In some cases, the Ministry has licensed community laboratories to perform these tests, but allows them to perform the tests only for non-Ontarians. The Ministry informed us that this arrangement is being reconsidered as it further develops its genetic strategy.
- **More effort needed to identify and improve underserved areas of laboratory services.** The Ministry has not set a provincial target number of collection centres and has not regularly collected sufficient information (such as the number of patients served—a number that British Columbia's Ministry of Health collects in that province) to assess if the current number and size of community collection centres across the province is appropriate and sufficient to meet patient needs.

Another set of concerns relates to the lack of oversight and controls over Ontario's laboratory services and the laboratories' performance.

- **Limited investigation of large in-office laboratory test volumes and billings by physicians.** In 2015/16, physicians who billed OHIP performed about 10.6 million in-office laboratory tests, which accounted for about $83 million (or 4%) of the Ministry's funding for laboratory services. We noted that among these physicians, 120 family and general practice physicians were responsible for almost half of all laboratory testing performed by physicians in their own offices. Among this group, the 15 physicians with the highest billings for in-office tests each performed between about 75,000 and 182,000 tests, and billed between about $600,000 and $1.4 million in 2015/16. In contrast, the average family and general practice physician who billed OHIP for in-office laboratory testing performed about 660 tests and billed approximately $4,700 in 2015/16. The Ministry has only performed a limited number of reviews (on eight of the 120 family and general practice physicians) to verify the accuracy of these billings.
- **No licensing and quality management of physicians' in-office laboratory testing.** Unlike hospital and community laboratories, physicians still do not require a licence to perform in-office laboratory testing and are not required to participate in the Province's quality management program. This has been raised as a concern repeatedly in our 1995 and 2005 audits, as well as external studies, but has remained unresolved over the past two decades because the Ministry has not taken any action to address this concern.
- **Lack of regional co-ordination and integration of hospital laboratories.** While some hospitals have worked together to develop regional laboratory networks that resulted in cost savings (through buying equipment and supplies in bulk, developing policies and procedures jointly and centralizing tests at certain laboratories), this has not been widely adopted across the province. In Ontario, regional laboratory networks exist in only six of the 14 Local Health Integration Networks (LHINs); but even in these six LHINs, not all hospitals participate in their networks. In contrast, as of April 2017, Quebec's Ministry of Health and Social Services moved all its laboratory services to regional networks. It estimated that this will result in an annual cost savings of up to 20% of its spending on laboratory services (excluding spending on specimen collection centres and genetic testing).
- **No oversight of billing practices by hospital laboratories.** Hospitals can send laboratory testing to other hospitals if their equipment is down or if they find that it is not cost-effective to do the tests themselves. However, the Ministry has not provided any guidelines and has not collected any information on this practice to ensure consistency and prevent hospitals from taking advantage by overcharging other hospitals. We identified cases where the prices that certain hospitals charged other hospitals for the same test differed significantly, with price differences ranging from 31% to 176%.
- **No consistent performance measurement and reporting of laboratory services.** The Ministry has not set provincial performance targets or collected performance information to measure, monitor and determine if all laboratory services have been provided efficiently, and in a consistent and timely manner across Ontario. As a result, the extent of performance measurement and reporting varies, depending on the type of laboratory service provider. Overall, there has been very limited public reporting on the performance of laboratory services. We found significant variations in performance, even within the same type of laboratory service provider. For example, the specimen rejection rate

(percentage of times that a test cannot be done due to a mistake made while collecting or handling specimens) in 2016/17 ranged from 0% to 4.4% within a sample of hospital laboratories in Ontario.

- **No provincial target, data collection and monitoring of wait times for laboratory services.** Laboratory service providers set their own wait-time targets for specimen collection. For example, while one community laboratory service provider targets serving 90% of patients at its collection centres within 30 minutes, another targets serving 90% of its patients within 40 minutes. For hospital collection centres, wait-time targets ranged from 20 minutes to 45 minutes. Unlike Ontario, hospital and community laboratories in Alberta must submit wait-time information to Alberta Health Services, which shares the information with all laboratories in Alberta to let each one gauge its performance relative to its peers. The Ministry planned to collect wait-time data from community laboratories by making $8.5 million of its funding dependent on whether they developed and implemented a consistent wait-time definition they could use to capture and report data. However, it abruptly discontinued its data collection to save costs as part of a broader Ministry-wide cost-savings initiative.
- **No assessment of the effectiveness and efficiency of laboratory service providers by Ministry.** We identified cases where certain tests could be performed more effectively and efficiently by one type of laboratory service provider than another. The Ministry can save money and ensure better patient care if certain laboratory service providers perform tests currently done by other providers. For example, one hospital was expected to save about $120,000 annually by performing *Clostridium difficile* testing itself instead of sending specimens to a regional Public Health Ontario laboratory for testing. Savings came from getting test results faster (in less than five hours as opposed to 24 to 72 hours), which enabled the hospital to diagnose diseases and discharge patients more quickly from an isolated room and use the room for other patients.
- **Inadequate oversight of quality management program.** The Ministry has relied on the Institute for Quality Management in Healthcare's (Institute's) quality management program to assess whether laboratories are providing accurate test results, but it has not collected enough useful information to assess the results of the program on an ongoing basis and identify where the quality of laboratory services needs improvement. For example, while overall, laboratories have implemented the policies and processes required under the quality management program, we noted regional variation in the number of non-conformances (such as not documenting test procedures or not having evidence on ongoing training of laboratory staff) that potentially warranted further investigation by the Ministry. Between 2013 and 2016, the average number of non-conformances per the Institute's assessment visit among the LHINs for accreditation purposes ranged from eight to 28.

Overall Conclusion

Overall, the Ministry has systems, procedures and controls to ensure that laboratory services are provided to Ontarians in a safe manner that complies with applicable legislation, policies and standards, and accurate laboratory tests results are provided to health-care professionals in a timely manner based on specific test standards. The quality management program, which has assessed the quality of all licensed laboratories in Ontario using strict criteria, has had satisfactory assessment results.

However, the Ministry has not ensured that laboratory services are provided to Ontarians

cost-effectively. This is mainly due to the lack of regular assessment of the funding and services provided by different types of laboratory service providers as well as inadequate oversight of laboratory billing practices. As well, the Ministry has not ensured that laboratory services are equally accessible to Ontarians, mainly because no regular assessment has been done to identify and improve underserved areas. In addition, the Ministry has not ensured that accurate and complete data on the efficiency and effectiveness of laboratory services is collected, assessed, used for performance management and service improvement, and publicly reported. This is largely due to the absence of provincial targets and measures, which has led to variations in measurement and reporting standards across Ontario.

This report contains 12 recommendations, consisting of 25 actions, to address our audit findings.

OVERALL MINISTRY RESPONSE

The Ministry of Health and Long-Term Care (Ministry) welcomes the Auditor General's report on Ontario's laboratory services system. We believe the report's recommendations align with, and will further enhance, the Ministry's ongoing work to modernize Ontario's laboratory sector.

The Ministry established the Laboratories and Genetics Branch in 2015 as the focal point for laboratory and genetic services in Ontario, and work is underway on several strategies. The Ministry's Community Laboratory Modernization Strategy is updating the funding model for community laboratories by improving value, access, accountability and quality of service. Under Schedule 3 of Bill 87, the *Protecting Patients Act, 2017*, amendments to three statutes have passed that support the Ministry's goal of modernization. The Ministry is making progress on updating the regulatory frameworks that govern laboratory service delivery.

The Ministry has made significant progress on achieving value for money in the community laboratory sector: (1) it has developed a new funding model for community laboratories; (2) it has introduced updates to the Schedule of Benefits for Laboratory Services following a systematic, evidence-based review of fee codes; and (3) it is bringing greater accountability and capacity to monitor and manage system performance of community laboratories by paying community laboratories through an accountability agreement starting in 2017/18. To ensure patients have better access to community laboratory services, consultations are under way to develop a Northern and Rural Laboratory Services Strategy, and enhanced specimen collection funding has been introduced to support improved laboratory services in traditionally hard-to-serve areas.

Recognizing the exponential growth in demand for genetic services and the need for focused leadership to drive genetic system improvements, the Ministry is currently consulting and collaborating with genetics experts and health system partners through several advisory groups and committees that were implemented in 2016/17 (for example, Consultation and Advisory Group for Genetics in Ontario; Ontario Genetics Advisory Committee at Health Quality Ontario) to address the immediate needs for genetic services across the province. This work will support the introduction of the comprehensive Genetics System Framework, a holistic approach to delivering genetic services that continues to build on the Ministry's efforts to increase capacity and capability across the health-care system for new genetic tests and services.

2.0 Background

2.1 Process Used for Laboratory Services

Health-care professionals order and use laboratory tests for various purposes, which include identifying changes in their patients' health (such as vitamin/mineral deficiencies or viral infections), diagnosing diseases (such as diabetes and cancer) in their patients, planning treatments, evaluating treatment results, and monitoring health conditions or diseases over time for their patients. In 2015/16, health-care professionals ordered over 700 different types of laboratory tests in Ontario.

Figure 1 shows that a patient's experience with laboratory services involves four steps. These vary depending on the location of the patient's health-care professional, the type of test ordered and the type of laboratory service provider (see **Section 2.2**). Generally, the process starts with a health-care professional (usually a physician) signing and providing a patient with a test requisition form, which indicates the type of laboratory test requested. Once the patient's specimen is collected and tested by the appropriate laboratory, the test results are sent back to the health-care professional who requested the tests (by fax, mail or electronically) to be used to help treat or monitor their patient's conditions.

2.2 Types of Laboratories

Ontario has four main types of laboratory service providers. Each performs different types of tests and has different sources of funding (see **Figure 2**).

2.2.1 Community Laboratories

Community laboratories are generally responsible for performing more routine laboratory tests for people who live in their communities (as opposed to people who are treated in hospitals). The majority of tests done by community laboratories are used to evaluate the overall health of an individual by measuring blood cell counts and the level of different hormones, proteins and minerals to detect a range of disorders (such as anemia, diabetes and liver disease).

Community laboratory tests are primarily performed on specimens collected from community specimen collection centres (collection centres). As of March 31, 2017, Ontario had 356 community collection centres and 18 community laboratories operated by seven privately owned companies. **Figure 3** shows the breakdown of the Ministry's funding to each of the seven companies that operate community laboratories.

The Ministry has established a community laboratory test price list, which identifies the amount the community laboratory service providers can bill the Ontario Health Insurance Plan (OHIP) for each

Figure 1: Process Used for Laboratory Services in Ontario

Prepared by the Office of the Auditor General of Ontario

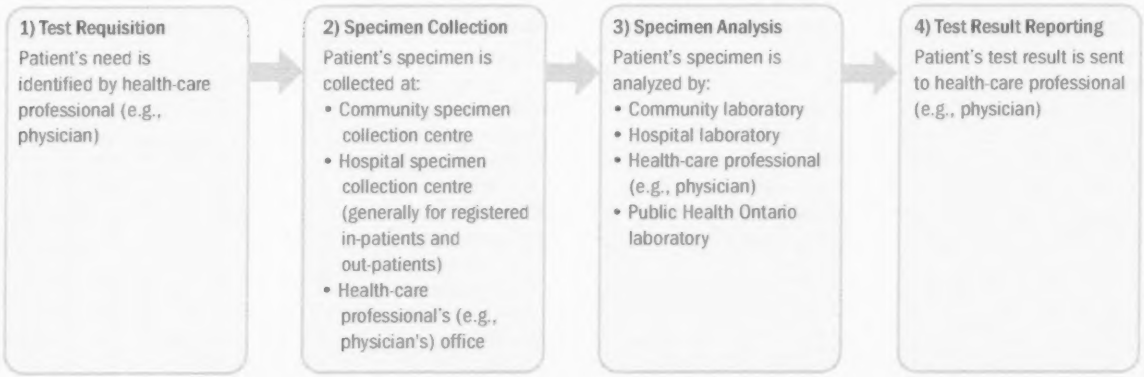

1) Test Requisition
Patient's need is identified by health-care professional (e.g., physician)
2) Specimen Collection
Patient's specimen is collected at:
• Community specimen collection centre
• Hospital specimen collection centre (generally for registered in-patients and out-patients)
• Health-care professional's (e.g., physician's) office
3) Specimen Analysis
Patient's specimen is analyzed by:
• Community laboratory
• Hospital laboratory
• Health-care professional (e.g., physician)
• Public Health Ontario laboratory
4) Test Result Reporting
Patient's test result is sent to health-care professional (e.g., physician)

Figure 2: Main Laboratory Service Providers in Ontario

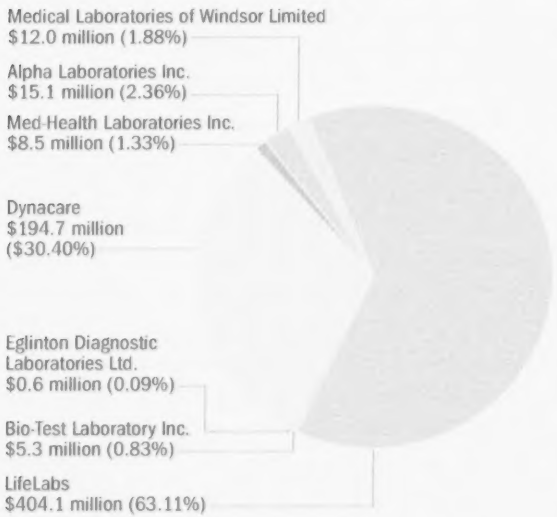
Prepared by the Office of the Auditor General of Ontario

Type of Laboratory Service Provider	Types and Examples of Testing Performed	Funding Source	# of Specimen Collection Centres [1]	# of Laboratories [1]	Cost per Test (2015/16) [2] ($)
1. Community laboratory	• Less urgent testing and screening (e.g., blood tests to identify vitamin, electrolyte and mineral levels, blood-cell count) for people living in the community	• Insured tests: Ministry (through OHIP) • Uninsured tests: Patients pay out-of-pocket or through private insurance	356 [3]	18 [3]	5.29
2. Hospital laboratory	• Almost all types of testing performed by community laboratories for registered in-patients and out-patients • More urgent/complex testing (e.g., blood tests to identify stroke or heart attack) in emergency departments	• Ministry (through hospital's global budget)	182	169	9.02
Hospital laboratory: genetic testing	• More complex testing to diagnose or identify an individual's risk of developing a certain disease or condition through analyzing DNA	• Ministry (primarily through hospital's global budget)	– [4]	14 [5]	410.26
3. Health-care professional (in-office)	• Primarily point-of-care testing that can be performed easily to determine diagnosis and treatment (e.g., urine tests to detect pregnancy or drugs)	• Ministry (through OHIP)	11,202 [6]	11,202 [6]	7.80 [6]
4. Public Health Ontario laboratory	• More specialized testing to identify the presence of infectious diseases (e.g., HIV, hepatitis) • Confirmatory testing to verify positive test results for infectious diseases identified by a community or hospital laboratory	• Ministry (through funding to Public Health Ontario)	– [4]	11	18.34

1. Information is as of March 31, 2017.
2. Cost per test was calculated as Ministry expenditure on the laboratory sector in 2015/16 divided by the total volume of tests performed by that sector in 2015/16. Hospitals and Public Health Ontario allocated part of the global budgets they received from the Ministry to provide laboratory services. Part of Public Health Ontario's funding allocation to laboratory services relates to items not directly related to performing laboratory tests on patients, such as funding for communicable disease surveillance, outbreak response, research and other services.
3. There are seven privately owned companies that operate community collection centres and laboratories.
4. Specimens for hospital laboratory genetic testing are generally collected in hospital collection centres. Specimens for Public Health Ontario laboratory testing are generally collected by community or hospital collection centres.
5. Fourteen hospital laboratories are licensed to perform genetic testing in Ontario.
6. These physicians performed all or some of the laboratory tests in 2015/16 on a fee-for-service basis, whereby they billed OHIP for each test performed. Other physicians may have performed laboratory testing in 2015/16 that was not billed through OHIP on a fee-for-service basis.

Figure 3: Ministry Funding to Community Laboratory Service Providers, 2015/16

Source of data: Ministry of Health and Long-Term Care



Note:

- 2015/16 funding to community laboratory service providers has not been finalized at the time of this audit.
- Community laboratory service providers operating in Ontario are private corporations.
- An eighth community laboratory service provider (Reese Nuclear Medicine Laboratory) last billed the Ministry in 2015/16 for approximately $7,800. It was not included in the above breakdown.

test they perform. Since 1993/94, the Ministry has capped the total funding to the community laboratory sector as a whole (called an "industry cap"). In 1996/97, the Ministry also began to cap the amount of funding it gives to each individual community laboratory service provider (called a "corporate cap"). The cap system has enabled the Ministry to contain its overall costs. **Figure 4** shows the total billings and payments made by the Ministry to community laboratory service providers under the "industry cap" between 2006/07 and 2015/16.

In 2015/16, community laboratory service providers performed more than 121 million tests, for which they received about $640 million in funding from the Ministry. Of this amount, $606 million was paid to the service providers based on the tests they billed OHIP. The remaining $34 million was paid primarily for the performance of two tests under separate funding agreements: prostate specific antigen (which is used to diagnose prostate cancer) and fecal occult blood test (which is used to screen for colorectal cancer).

2.2.2 Hospital Laboratories

Hospital laboratories generally provide laboratory services to hospital in-patients and out-patients. While hospital laboratories perform the same type of routine tests as community laboratories, they also perform more urgent and complex tests (such as a blood test to determine if a patient in an emergency department has had a stroke or heart attack) that community laboratories are not licensed to perform. As of March 31, 2017, there were 182 hospital specimen collection sites and 169 hospital laboratories (as some hospitals have multiple collection sites).

Each hospital funds its laboratory or laboratories independently, primarily through the global budgets the Ministry provides hospitals through the 14 Local Health Integration Networks (LHINs). In 2015/16, hospitals spent about $1.1 billion to perform about 123 million laboratory tests.

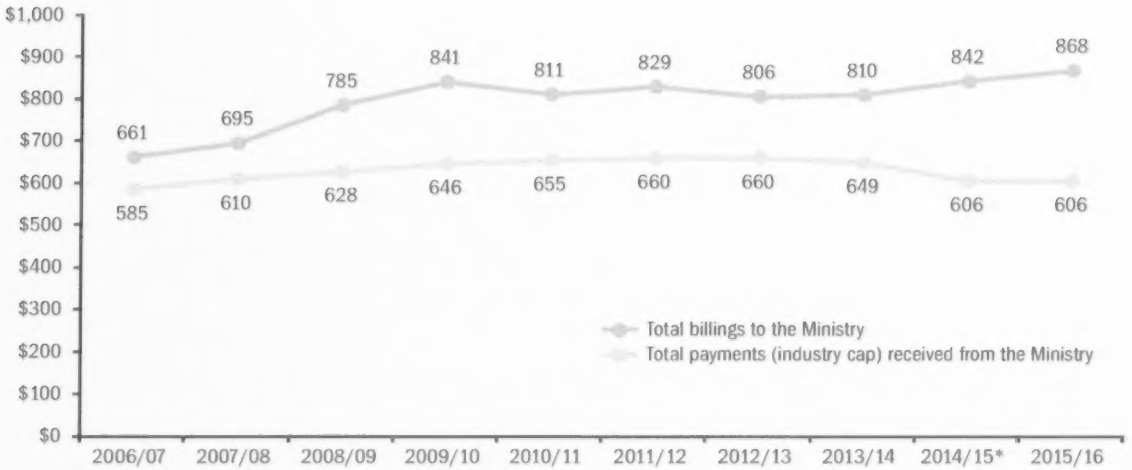
2.2.3 Hospital Laboratories: Genetic Testing

Genetic testing is a type of laboratory test that involves the examination of an individual's genetic material, such as strands of DNA. The results of a genetic test can help confirm or rule out a suspected genetic condition or help determine the chance that a patient will develop or pass on a genetic disorder. The majority of genetic testing performed each year in Ontario is for the diagnosis and treatment of cancers as well as to identify fetuses that have or are likely to have a genetic disorder.

Most genetic testing is done by hospital laboratories and is paid out of hospitals' global budgets. In 2015/16, Ontario hospitals spent about $64 million on 157,000 genetic tests that they performed. In addition, the Ministry also spent about US$31 million on about 15,300 specimens sent outside of the country for genetic testing in 2015/16.

Figure 4: Community Laboratory Service Sector Total Billings to the Ministry and Total Payments Received from the Ministry, 2006/07–2015/16 ($ million)

Source of data: Ministry of Health and Long-Term Care



Note: This figure represents community laboratory service provider billings and payments related to tests identified in the Ministry's price list. In each year identified, total payments to the providers matched the Ministry's industry cap. The community laboratory service providers also receive funding from the Ministry related to other items (primarily for performing a laboratory test related to diagnosing prostate cancer and another test that is used to screen for colorectal cancer). In 2015/16, the Ministry paid community laboratory service providers $34 million for these items outside of the industry cap.

* The decrease in the industry cap in 2014/15 primarily relates to funding that was removed from the industry cap that community laboratory service providers received as funding under a separate agreement. This separate agreement was then cancelled in 2015/16 to meet cost-reduction goals as part of the government's 2015 Budget.

2.2.4 Health-Care Professionals' In-Office Testing

Authorized health-care professionals such as physicians can perform certain tests directly on their patients and bill the Ministry through OHIP for the tests they perform. Most of these tests, known as point-of-care tests, can be performed relatively easily compared to other laboratory tests, as they do not require sophisticated equipment to perform the analysis. Examples of point-of-care tests are blood glucose testing, drug abuse screening, urine strips testing, pregnancy testing and cholesterol screening.

In 2015/16, over 11,200 physicians in Ontario billed OHIP about $83 million related to about 10.6 million point-of-care tests they performed on patients in their own offices. These were primarily urinalysis (to detect and manage conditions such as urinary tract infections, kidney disease and diabetes) and tests to detect drugs of abuse.

2.2.5 Public Health Ontario Laboratories

Public Health Ontario is a government agency responsible for providing scientific and technical advice and support to the government, health-care workers and related sectors. Public Health Ontario was created in 2007 as a result of several public health events, including the outbreak of *E. coli* infections at Walkerton in 2000 and the outbreak of severe acute respiratory syndrome (SARS) in 2003.

One of Public Health Ontario's responsibilities is to provide laboratory services to health-care professionals across Ontario. These laboratory services were performed by the Ministry prior to Public Health Ontario's establishment. Public Health Ontario operates 11 laboratories that primarily

test for infectious diseases to diagnose a patient or to confirm a positive test result that a hospital or community laboratory has identified. Public Health Ontario laboratories are also responsible for performing tests for rare diseases (such as Zika), regional outbreaks (such as measles), bacteria in food and water, and laboratory-based infectious disease surveillance.

In 2015/16, Public Health Ontario received $151 million in funding from the Ministry and spent about two-thirds (or $101 million) of this to perform about 5.5 million laboratory tests. This includes about 300,000 tests related to testing food and water for the presence of pathogens.

2.3 Volume of Laboratory Services and Ministry Expenditures

In 2015/16, approximately 260 million laboratory tests were performed in Ontario, the majority of them by hospital and community laboratories. **Figure 5** provides the breakdown of tests performed by each type of laboratory service provider. Between 2011/12 and 2015/16, the overall volume of laboratory tests in Ontario increased by about 4%.

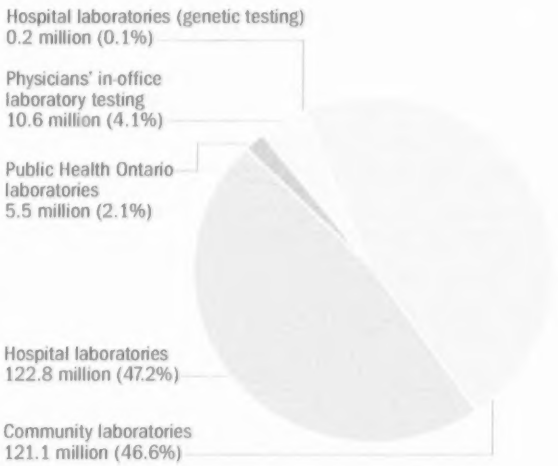
In 2015/16, the Ministry spent about $2 billion on laboratory services. **Figure 6** provides the breakdown of spending on laboratory tests performed by each type of laboratory service provider. Between 2011/12 and 2015/16, the Ministry's spending on laboratory services increased by about 2%.

2.4 Licensing and Quality Management of Laboratory Services

Under the *Laboratory and Specimen Collection Centre Licensing Act*, all medical community, hospital and Public Health Ontario laboratories, as well as specimen collection centres, must be licensed by the Ministry's Laboratories and Genetics Branch. The Ministry has the ability to perform unannounced inspections at laboratory service providers' facilities.

Figure 5: Test Volume by Type of Laboratory Service Provider, 2015/16

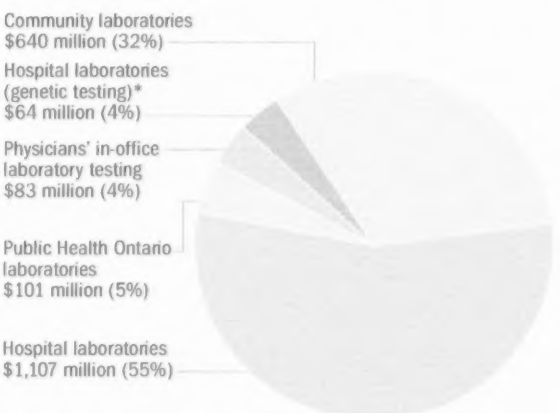
Source of data: Ministry of Health and Long-Term Care



Note: At the time of our audit, 2015/16 data was the latest data available. The Ministry also had not finalized volume information for community laboratories. We included the Ministry's best information available at the time of our audit.

Figure 6: Ministry Funding by Type of Laboratory Service Provider, 2015/16

Source of data: Ministry of Health and Long-Term Care



* Funding for genetic testing did not include about US $31 million spent on out-of-country genetic tests.

To remain licensed, laboratories and collection centres must participate in the quality management program operated by the Institute for Quality

Management in Healthcare (Institute). The quality management program began operating under the Ontario Medical Association (OMA) in 1974 and was transferred to the Institute (a subsidiary of the OMA) in 2015. The Institute receives about $4.7 million annually from the Ministry to carry out its quality management program on laboratory service providers in Ontario. The Institute's quality management program involves two main components—accreditation and proficiency testing—which are summarized in **Figure 7**.

3.0 Audit Objective and Scope

Our audit objective was to assess the systems, procedures and controls of the Ministry of Health and Long-Term Care (Ministry) to ensure that:

- laboratory services are accessible to Ontarians;
- accurate laboratory test results are provided to health-care professionals in a timely manner based on specific test standards;
- laboratory services provided to Ontarians are cost-effective;
- laboratory services provided to Ontarians are safe and comply with applicable legislation, policies and standards; and
- accurate and complete data on the efficiency and effectiveness of laboratory services is collected, assessed, used for performance management and service improvement, and publicly reported, for the benefit of Ontarians.

Before starting our work, we identified the audit criteria we would use to address our audit objective. We based these criteria on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at the Ministry reviewed and agreed with our objective and associated criteria as listed in **Appendix 1**.

We conducted our audit work primarily at the Ministry's Laboratories and Genetics Branch in Toronto from December 2016 to June 2017. We obtained written representation from the Ministry that, effective November 3, 2017, it has provided us with all the information it is aware of that could significantly affect the findings of this report. We also met with key personnel at the Ministry involved in the oversight of laboratory services and reviewed related documentation and data.

In addition:

- We met or spoke with staff at laboratories and their specimen collection centres across the province, which included the three largest community laboratories (LifeLabs, Dynacare and Alpha Laboratories); 13 hospital laboratories (Children's Hospital of Eastern Ontario, Credit Valley Hospital, Headwaters Health Care Centre, Health Sciences North, Juravinski Hospital, North Bay Regional Health Centre, North York General Hospital, Pembroke Regional Hospital, St. Joseph's Healthcare Hamilton, Sunnybrook Hospital, The Ottawa

Figure 7: Summary of Quality Management Program for Licensed Laboratory Service Providers in Ontario
Source of data: Institute for Quality Management in Healthcare

	Accreditation	Proficiency Testing
Purpose	To ensure that processes at laboratories are *in place*.	To ensure that processes at laboratories are *effective*.
Method	• Performing an on-site assessment every four years to review and determine if the laboratories' policies and procedures conform to the program's requirements and standards. • Reviewing a self-assessment performed by laboratories two years after the previous on-site assessment.	• Sending sample specimens to laboratories for testing and requiring them to report the test results back to the Institute for Quality Management in Healthcare, which analyzes and verifies the accuracy of testing.

Hospital, Thunder Bay Regional Health Sciences Centre, and Timmins and District Hospital) in eight Local Health Integration Networks (LHINs); and two regional Public Health Ontario laboratories (in Toronto and Ottawa). We also examined data and documentation provided by these laboratories.

- We met with senior management and staff as well as reviewed data and documentation at the Institute for Quality Management in Healthcare (Institute) to understand the quality management program that all licensed community, hospital and Public Health Ontario laboratories and specimen collection centres must follow in Ontario.
- We spoke with representatives from the College of Physicians and Surgeons of Ontario and the Ontario Medical Association to understand the oversight of physicians' in-office laboratory testing and physicians' thoughts on Ontario's laboratory system.
- We met or spoke with representatives of various laboratory stakeholder groups, including the Ontario Association of Medical Laboratories (an association representing six community laboratories, including the two largest community laboratories in Ontario), In-Common Laboratories (a not-for-profit organization that helps health-care professionals and laboratories who are unable or choose not to perform tests themselves find other laboratories to do so), the Eastern Ontario Regional Laboratory Association (a not-for-profit organization composed of 16 hospital laboratories in the Champlain LHIN), and Choosing Wisely Canada (a campaign that engages clinicians and patients in conversations about unnecessary tests and treatment, including laboratory tests).
- We spoke to the provincial bodies responsible for oversight of laboratory services in British Columbia, Alberta, Saskatchewan, Manitoba and Quebec to identify best practices and understand oversight of laboratory services in other jurisdictions across Canada.
- We reviewed and followed up on the relevant audit issues raised in our 2005 audit of Health Laboratory Services and a 2015 review of Ontario's community laboratory sector by the Laboratory Services Expert Panel (Expert Panel) commissioned by the Ministry. **Appendix 2** provides a summary of the implementation status of recommendations from the Expert Panel's report.

Furthermore, we engaged an independent adviser with expertise in the field of laboratory services to assist us on this audit.

4.0 Detailed Audit Observations

4.1 Overpayments to Community Laboratories

The Ministry has not significantly updated its price list that sets the amount it pays community laboratories to perform each laboratory test since 1999. We estimate that the Ministry overpaid community laboratory service providers, which perform nearly 50% of the laboratory tests in Ontario (see **Figure 5**), by at least $39 million in 2015/16. Although the Ministry plans to implement a new price list in 2017/18, this list is not based on the actual costs of all community laboratory service providers in Ontario.

4.1.1 Outdated Price List Resulted in Overpayments to Community Laboratories

Seven community laboratory service providers currently operate in Ontario (see **Figure 3**). These providers are primarily paid through a fee-for-service arrangement with the Ministry by billing the Ontario Health Insurance Plan (OHIP) based on a price list that defines the types and prices of laboratory tests. The amount paid to each community laboratory service provider is based on each test's price multiplied by the volume of each

test, subject to a cap that limits the total amount each provider can receive from the Ministry (see **Section 2.2.1**). Once they have reached their caps, community laboratory service providers continue providing services and submitting bills that account for their services performed; between 2011/12 and 2015/16, they collectively billed over 30% more than they received from the Ministry under the cap funding system.

The Ministry is responsible for reviewing and updating the price list; however, it had no process in place at the time of our audit to regularly do so. As a result, it has not made any significant changes to the price list since 1999. The current price list is outdated and does not reflect changes in testing methods and technological advancements in laboratory testing, which have led to significant automation and cost reduction in performing many routine tests.

The Ministry started the process of reviewing and updating the current price list in 2013 but put this on hold because this review only developed prices for a limited number of tests and the Ministry wanted to develop a more cohesive strategy to modernize the community laboratory sector, including modifying the fee-for-service funding arrangement with community laboratory service providers.

In 2015, the Ministry commissioned an expert panel to review Ontario's community laboratory sector. The expert panel recommended that the Ministry update the price list. Consequently, the Ministry engaged a consulting firm in 2016 to perform a review of the price list, and used the review results to draft the new price list.

Based on our review of the current price list and the draft new price list for 2017/18, we noted that the prices of some common tests have fallen significantly, meaning that the Ministry has been overpaying the community laboratory service providers for these tests. **Figure 8** provides examples of common tests with significant price differences (ranging from 41% to 77%) between the current price list and the draft new price list.

Price Cap Has Not Resolved Overpayments

While the current cap funding system has enabled the Ministry to stabilize and contain the overall cost of community laboratory services by limiting the amount each community laboratory service provider can receive from the Ministry, the current price list has still resulted in overpayments. These could have been avoided or reduced if the Ministry had reviewed and updated its price list on a more frequent basis.

Based on the 2015/16 volume of each test performed by community laboratories, we calculated that the Ministry would have paid community

Figure 8: Examples of Significant Test Price Differences between the Ministry's Current and Draft New Price List for Common Laboratory Tests, 2015/16

Source of data: Ministry of Health and Long-Term Care

Type of Test	Most Common Purpose of Test	Test Volume (2015/16) (million)	Price on Current Price List ($)	Price on Draft Price List ($)*	Price Difference (%)
25-hydroxyvitamin D	To determine vitamin D levels	0.38	51.70/test	11.66/test	77
Thyroid stimulating hormone	To identify thyroid disorders	5.40	9.82/test	3.58/test	64
Prothrombin time	To check if medicine to prevent blood clots is working	1.72	6.20/test	2.66/test	57
Glucose	To screen, diagnose and monitor diabetes	6.42	2.59/test	1.28/test	51
Complete blood count	To look for anemia, nutrition status, infections and certain cancers	8.27	6.72/test	3.98/test	41

* Based on prices included in the Ministry's draft price list as of June 30, 2017.

laboratory service providers about $39 million less if it had implemented the draft new price list in 2015/16 as opposed to using the current price list from 1999. To illustrate, while community laboratory service providers billed the Ministry about $868 million in 2015/16 for tests they performed based on the current price list, the actual amount the Ministry paid to these providers for performing these tests was capped at about $606 million (see **Figure 4**). If the draft new price list had been in effect in 2015/16, these service providers would have billed the Ministry about $567 million and would have been paid that much only. This is $39 million lower than the $606 million that was paid to these providers in 2015/16 for performing these tests under the cap funding system.

Planned Mitigation Fund Will Delay Ministry Savings

Although implementing the new price list would result in immediate savings, the Ministry did not plan to fully realize such savings. Instead, it proposed to use the savings to set up a three-year mitigation fund (at a total cost of over $95 million) in order to help community laboratory service providers, which will initially receive less Ministry funding each year as a result of the new price list that has lower test prices. In other words, the Ministry will provide community laboratory service providers with additional funding during the first three years when the new price list is in effect to compensate community laboratory service providers that earn less under the new price list. Consequently, the Ministry will not fully benefit from reducing payments to community laboratory service providers until the fourth year after implementing the new price list.

Other studies of Ontario's community laboratory sector also raised concerns about the current price list, which has resulted in payments made to community laboratory service providers that were well above their costs. For example:

- According to a report by the Laboratory Services Expert Panel (Expert Panel) commissioned by the Ministry in 2015, an earlier review of Ontario's community laboratory service sector conducted by a consulting firm for the Ministry in 2012 noted that "the pricing of laboratory services outlined in Ontario's current [price list] appears to be generous and provides a significant profit margin to community laboratory service providers."
- A 2015 report by a stakeholder group (composed of some smaller community laboratory service providers, non-profit organizations, physicians and patient groups) estimated that the government may have overpaid certain community laboratory service providers over the past 15 years as a result of the community price list not accurately reflecting the actual costs of community laboratory service providers.

As previously mentioned, we calculated that the Ministry would have spent about $39 million less in 2015/16 if it had implemented its draft new price list in that year. However, our estimate of $39 million only represents overpayment for 2015/16 alone rather than the overall potential overpayment for prior years. We are unable to estimate the overall overpayment because it is not clear what test prices would have been in prior years if the Ministry had updated the price list more regularly since 1999.

4.1.2 Price List Update Was Not Based on All Relevant Data

While the Ministry plans to update its price list for 2017/18, the draft new price list is not based on actual cost data from all community laboratory service providers in Ontario. This is because the Ministry does not have access to any financial information (such as costs of performing laboratory testing or profit margins) from community laboratory service providers under the fee-for-service arrangement currently in place with these providers.

In 2016, the Ministry engaged a consulting firm to conduct a review of the price list that has been in place since 1999. Updated prices on the Ministry's

draft new price list are largely based on prices proposed by the consulting firm, with some adjustments based on input from community laboratory service providers and advice from an expert with community laboratory experience contracted by the Ministry.

The consulting firm used price lists from other Canadian jurisdictions along with cost information from hospitals in Ontario, public health laboratories, laboratory service providers in the United States and one community laboratory service provider in Ontario that accounted for less than one-third of the provincial community laboratory test volume to determine the base price (cost) for each test. The consulting firm then added a 30% corporate overhead cost (to cover costs such as administration and rent for specimen collection centres and laboratories) and a 20% profit margin to arrive at the final recommended prices on the draft price list.

However, we question the appropriateness and relevance of the information used in determining the new price list for community laboratory service providers, because full cost data from the two largest community laboratory service providers in Ontario (accounting for the majority of the Ministry's funding to community laboratory service providers) was not made available to the consulting firm. These community laboratory service providers informed us that they did not share cost or other financial information with the Ministry or the consulting firm. Since these two largest community laboratory service providers process a larger volume of certain tests than many hospitals and smaller community laboratory service providers, they can achieve economies of scale and lower overall costs per test. In addition, without financial information from these community laboratory service providers, the Ministry did not know if the corporate overhead cost and profit margin used by the consulting firm in developing the price list were reasonable.

The Ministry was also unsuccessful in its earlier attempt to determine community laboratories' costs. In response to our 2007 follow-up to our 2005 audit on Health Laboratory Services, the Ministry stated that it was planning a two-stage review that would allow it to determine the actual costs of community laboratories in Ontario by 2008/09. However, changes in the Ministry's branch or division responsible for overseeing community laboratory services resulted in it not completing the review. Since 2008/09, the Ministry has changed its oversight of community laboratory services four times. For most years between 2008/09 and 2015/16, the Ministry did not have a dedicated director solely responsible for overseeing community laboratory services. This meant that there has not been a consistent person or group in the Ministry responsible for overseeing the community laboratory sector for most years since 2008/09.

RECOMMENDATION 1

To ensure that payments made to community laboratory service providers are reasonable, we recommend that the Ministry of Health and Long-Term Care (Ministry):

- establish a process to regularly assess and update the price list for community laboratory services based on actual community laboratory cost data and input from industry experts; and
- regularly collect and assess cost information from community laboratory service providers to ensure the amount paid by the Ministry is based on relevant information.

MINISTRY RESPONSE

The Ministry agrees with this recommendation. The Ministry supports establishing a process to regularly update prices in the Schedule of Benefits for Laboratory Services (SOB-LS), a key component of the Ministry's Community Laboratory Modernization Strategy. The Ministry is developing plans to establish a test review and utilization committee, composed of industry experts, to address this commitment. This work

is anticipated to commence late in the 2017/18 fiscal year.

The Ministry supports obtaining the lowest possible pricing for tests and will use all available information, including laboratory costs, where feasible, in order to establish the payment for laboratory testing (note that private corporations are not obligated to provide costing information to the Ministry).

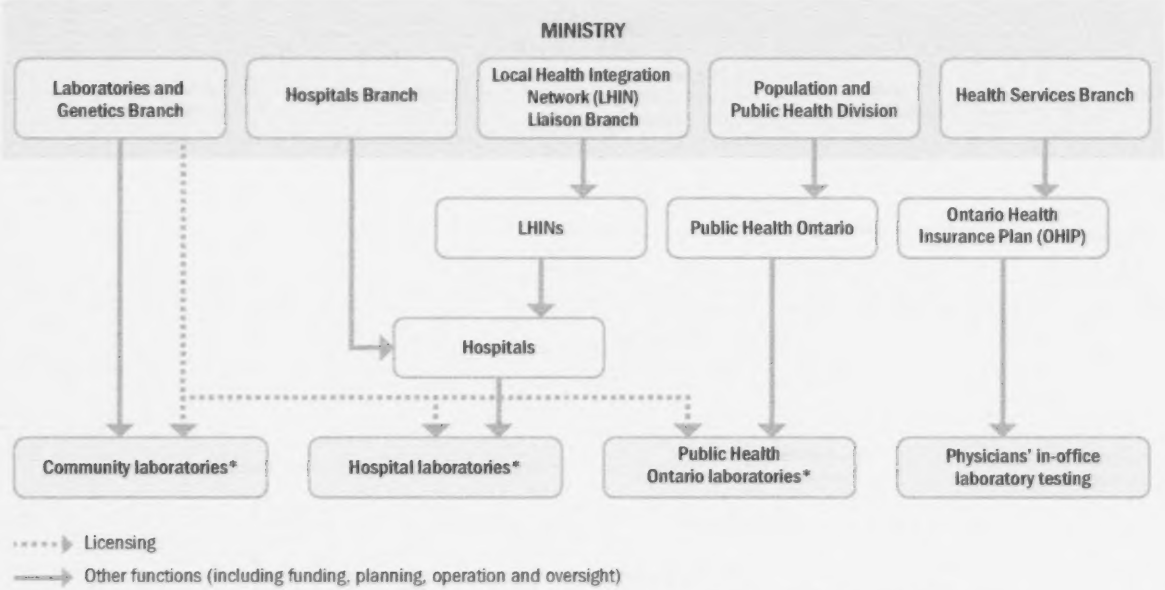
In 2017/18, the Ministry will implement an updated SOB-LS based on costing data from various laboratories, which will reduce test prices. These lower test prices result from economies of scale and advances in testing technology/automation. The Ministry has taken action to limit the possibility of overpayments by having a financial cap system in place that limits payments to the community laboratory service providers. While it is difficult to quantify historical overpayments, the Ministry has mitigated the risk by flatlining and reducing funding in recent years, in recognition of the lower costs for many laboratory tests.

4.2 Fragmented Management of Laboratory Sector

The Ministry's fragmented management of the laboratory sector has prevented an assessment of the appropriateness of funding to different laboratory service providers, as well as the effectiveness and efficiency of laboratory services performed by each provider. While the Ministry's Laboratories and Genetics Branch is responsible for licensing laboratories in Ontario, other functions (such as funding, planning, operation and oversight) of Ontario's laboratory sector fall under various branches and divisions across the Ministry, depending on the type of laboratory service provider (see **Figure 9**). Specifically:

- community laboratories are operated by community laboratory service providers, which are overseen by the Ministry's Laboratories and Genetics Branch;
- hospital laboratories are operated by individual hospitals, which are accountable to the Ministry's Hospitals Branch and the Local Health Integration Networks (LHINs)

Figure 9: Key Ministry Departments and Other Entities Involved in Managing Ontario's Laboratory Sector
Prepared by the Office of the Auditor General of Ontario



* Particpate in the Institute for Quality Management in Healthcare's quality-management program (see **Section 2.4** for more details).

that are overseen by the Ministry's LHIN Liaison Branch;

- Public Health Ontario laboratories are operated by Public Health Ontario, which is overseen by the Ministry's Population and Public Health Division; and
- physicians' in-office laboratory testing is overseen by the Ministry's Health Services Branch.

4.2.1 No Assessment on Appropriateness of Funding to Different Types of Laboratories

The Ministry has not done any analysis to determine whether funding has been appropriately allocated to different types of laboratory service providers.

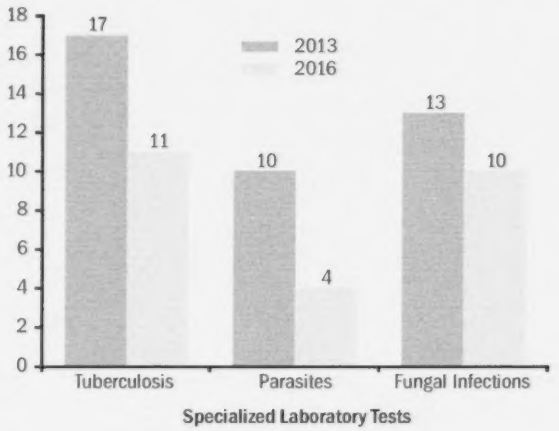
Based on our review of data between 2011/12 and 2015/16, the Ministry's base funding to hospitals increased by over $250 million while hospital laboratory expenses alone increased by $63 million, meaning that about 25% of the increase in hospital funding was spent on covering the increase in laboratory expenditures. We noted cases where, to deal with funding pressures and higher laboratory expenditures, hospitals reduced their on-site laboratory services, which in turn increased test volumes at Public Health Ontario laboratories and community laboratories.

Hospital Laboratories Passing Tests to Public Health Ontario Laboratories

Between 2011/12 and 2015/16, the number of certain specialized laboratory tests performed by Public Health Ontario laboratories (such as tests to detect tuberculosis, parasites and fungal infections) increased by 7% (from about 350,000 tests to about 375,000 tests). Public Health Ontario indicated that this increase was mainly because fewer hospital and community laboratories were performing specialized tests themselves, but instead were requesting Public Health Ontario laboratories to perform them. **Figure 10** shows the number of hospital and community laboratories performing selected specialized laboratory tests in 2013 and 2016. One of the hospitals also informed us that in order to save costs, it has been asking a Public Health Ontario laboratory to perform hepatitis testing on its behalf, because the cost of testing was paid out of Public Health Ontario's budget.

Figure 10: Number of Hospital and Community Laboratories Performing Selected Specialized Laboratory Tests, 2013 and 2016

Source of data: Public Health Ontario



Between 2012/13 and 2016/17, the number of tests performed by Public Health Ontario laboratories increased by 13% (from 4.7 million to 5.3 million tests), partly due to the growing number of test requests from the hospitals. Public Health Ontario informed us that it raised this as a concern with the Ministry in 2016/17, because additional requests from hospitals have made it challenging for its laboratories to perform all requested tests within the time frames expected by physicians to meet patient needs. The Ministry is still considering what action to take to address Public Health Ontario's concern.

Hospital Laboratories Passing Tests to Community Laboratories

Some hospitals used to provide laboratory services to community patients (those who are not registered in-patients or out-patients with these hospitals), but they have stopped doing so to contain costs as a result of funding pressure. While

the hospitals have reduced the laboratory services they provide, there has been no adjustment to the amount of funding the hospital receives. The reduction in laboratory services by hospitals for community patients has increased the amount of testing that community laboratories perform. For example:

- One hospital used to collect specimens from community patients and pay other community and hospital laboratories to do the laboratory testing on its behalf. To save costs, since 2016 this hospital has stopped collecting specimens from community patients for tests that it does not perform on-site and that are available through a nearby community laboratory service provider. As a result, this hospital has seen about 12,000 fewer community patients (about 33,000 in 2012/13 compared to about 21,000 in 2016/17), which in turn increased patient volume at a community laboratory service provider (located four kilometres away from this hospital) by over 30% (from about 85 to 115 patients per day).
- Another hospital has stopped offering laboratory services to community patients since 2015, which in turn increased patient volume at a community laboratory service provider (located less than one kilometre away from this hospital) by about 50% (from about 110 to 170 patients per day).

4.2.2 No Assessment on Effectiveness and Efficiency of Different Types of Laboratories

Some interrelationships exist between the different types of laboratory service providers—for example, hospital laboratories may refer complex tests for infectious diseases to Public Health Ontario laboratories. Nevertheless, the Ministry has not done any analysis to determine whether laboratory services are being provided to Ontarians efficiently and effectively, in a cohesive manner, to meet patient needs and to save overall health system costs.

We identified cases where certain tests could be performed more effectively and efficiently by one type of laboratory service provider than another. This includes examples where hospitals or community laboratories may be a better choice to perform tests than Public Health Ontario laboratories.

Health-Care Efficiency Could Be Improved with Some Increased In-Hospital Testing

Hospitals can have *Clostridium difficile* (*C. difficile*) testing done by Public Health Ontario laboratories at no cost to the hospitals. Public Health Ontario laboratories provide *C. difficile* testing services for over 35,000 specimens from across the province. Five thousand of these originate from hospitals, and some hospitals may benefit from testing for *C. difficile* in their laboratories.

One hospital informed us that it has been conducting its own *C. difficile* tests since 2013, even though it is less than one kilometre away from a regional Public Health Ontario laboratory. In 2012, the hospital sent about 1,700 *C. difficile* tests to the nearby Public Health Ontario laboratory. Our review of the estimates done by a consultant for this hospital has found that the hospital potentially saves about $120,000 a year by doing *C. difficile* tests itself because of shorter turnaround times for test results—less than five hours, as opposed to 24 to 72 hours in waiting for the results from Public Health Ontario laboratories as these laboratories do not perform this testing on a daily basis. This lets the hospital diagnose diseases faster and discharge patients who were incorrectly suspected of having *C. difficile* more quickly from an isolated room, and use the room for other patients.

For similar reasons, it may be more appropriate for some hospitals to perform influenza testing than for hospitals to send specimens to Public Health Ontario laboratories for testing. One hospital we spoke with is planning to purchase new equipment in 2017/18 to conduct its own influenza testing because of shorter turnaround times, even though it is only three kilometres from a regional Public Health Ontario laboratory.

In 2016/17, Public Health Ontario laboratories conducted over 35,000 tests related to detecting *C. difficile* and over 70,000 tests related to detecting influenza for hospital and community patients. The Ministry has not done any analysis to determine the extent of savings for the overall health-care system if more of these tests were performed by hospital laboratories.

Community Laboratories Could Perform Additional Tests but Are Not Allowed to

Community laboratories have the capabil... perform certain tests but are not allowed to do so by the Ministry. For example:

- HIV diagnosis, treatment, support and surveillance is an integral component of the public health response to the HIV epidemic. The Ministry has assigned Public Health Ontario laboratories to serve as the sole provider of diagnostic testing for HIV, which includes performing additional tests and capturing enhanced epidemiological information in support of the treatment of HIV-positive patients. Public Health Ontario also uses information from these test results to inform its other public health programs. Between 2012/13 and 2016/17, the number of HIV tests performed by Public Health Ontario laboratories increased by over 14% (from about 691,000 tests to 789,000 tests). Nevertheless, one of the largest community laboratory service providers operating in Ontario informed us that its laboratories are able to perform HIV testing and have been doing so for some Ontarians (as when employers require their employees to be tested); however, they are not allowed to perform HIV testing for diagnostic purposes even though they are still the ones who collect and transport the specimens to Public Health Ontario laboratories for testing. The Ministry has not performed any analysis to determine potential cost savings or other impacts on HIV care of transferring HIV testing to community laboratories.
- As part of the Ministry's Maternal Serum Screening Program (Program), seven hospitals in the province receive funding to perform prenatal laboratory tests for pregnant women to detect genetic disorders such as Down syndrome. Hospital laboratories performed more than 80,000 of these tests in 2015/16. Community laboratories are also able to perform these tests, but only when they are ordered separately and not part of the Ministry's Program. The Ministry informed us that, historically, the hospitals that were part of the Program have been providing educational materials and counselling services to parents based on the test results. Patients who are being tested under this Program can have their blood drawn at community collection centres, which then have to transport the specimens to the designated hospitals for testing. These designated hospitals are often located further away than the community laboratory associated with the collection centre where the specimen was collected. As a result, the longer time needed to transport specimens to the designated laboratory can delay how quickly the testing can be performed.

RECOMMENDATION 2

To ensure that laboratory services are appropriately funded and performed effectively and efficiently to meet patient needs, we recommend that the Ministry of Health and Long-Term Care analyze the capabilities and responsibilities of different types of laboratory service providers (community, hospital and Public Health Ontario) to determine if any changes are needed with respect to the types of tests each provider performs and, accordingly, the amount of funding each provider receives.

MINISTRY RESPONSE

The Ministry supports this recommendation. The Ministry is currently working to modernize

community laboratory services. The Ministry intends to conduct a review of hospitals and public health laboratories starting in 2018/19, using the broader sector recommendations of the Laboratory Services Expert Panel's 2015 report.

4.3 No Regular Review of Medically Necessary Tests

The Ministry currently has no process in place to regularly evaluate and determine whether it should be paying for some laboratory tests in the community setting that have become more widely accepted as medically necessary. Some of these tests, such as cancer antigen 125 or CA 125 (used to measure the amount of protein cancer antigen 125 in a patient's blood) and Carbon-13 Urea Breath test (used to identify infections caused by *Helicobacter pylori*) are paid for by other provinces. While the Ministry licenses community laboratory service providers to perform uninsured tests ordered by health-care professionals, it has not set or monitored the prices that these providers charge their patients (who generally have to pay out-of-pocket or through private insurance) for these tests.

4.3.1 Medically Necessary Tests Remain Uninsured

In 2015/16, community laboratories performed about 1.1 million laboratory tests (relating to over 45 types of tests) that were not paid for by the Ministry. These uninsured tests were largely for patients who were seeking health care outside of a hospital. They still require a health-care professional's requisition for the tests to be performed, but are generally paid for by a patient out-of-pocket or through private insurance.

In 2016, the Ministry engaged a consulting firm to review the current price list for community laboratory services (see **Section 4.1.2**). As part of this review, the consulting firm identified 16 medically necessary tests not funded by the Ministry that it recommended adding to the new price list for 2017/18. However, we noted that the Ministry did not include any of these tests in its draft new price list. The Ministry informed us that it may consider reviewing whether any currently uninsured tests should be insured at a later time; however, it has not established a timeline for this review.

Based on our analysis of 2015/16 test volumes and cost data from laboratory service providers, we estimated that if the Ministry had funded these 16 uninsured tests, the additional cost would have been less than $5 million to perform the same volume of tests. This additional cost would be more than offset by the savings of about $39 million to be realized from updating the price list (see **Section 4.1.1**). In fact, we noted that the majority of the 16 tests recommended by the consulting firm are insured in other provinces such as British Columbia and Alberta (see **Figure 11**).

4.3.2 Lack of Information on Fees Charged to Patients for Uninsured Tests

The Ministry licenses community laboratories to perform uninsured tests on patients that are ordered by a health-care professional. While patients generally must pay out-of-pocket (or through private insurance) for these tests, the Ministry has not set or monitored the prices that community laboratory service providers charge their patients. Although the Ministry has the authority to set the fee that community laboratory service providers bill for tests that the Ministry insures through OHIP, it does not have the authority to set the fees charged by service providers for uninsured tests.

Since community laboratory service providers' annual billings to the Ministry are capped under the current fee-for-service arrangement (see **Section 4.1.1**), performing uninsured tests and charging patients has provided a way for community laboratory service providers to increase their revenues. Without oversight by the Ministry, the fairness of the prices community laboratory service providers charge their patients is unclear.

We analyzed a sample of uninsured tests that patients may pay community laboratory service providers in Ontario to have performed, and found that the price charged to patients for the same test varied from one laboratory to another. We also collected information from a community laboratory service provider in British Columbia and identified examples of uninsured tests where the price it charged for each of these tests was often less than the price charged by community laboratory service

Figure 11: Comparison of Insured Status of 16 Laboratory Tests in Ontario, British Columbia and Alberta, as of June 30, 2017

Source of data: Alberta Health Services, British Columbia's Ministry of Health and Ministry of Health and Long-Term Care

		Insured Test		
Type of Test	Most Common Purpose of Test	Ontario[1]	British Columbia[2]	Alberta
1. Allergen specific IgE	To diagnose an allergy to specific substances in a person who presents with acute or chronic allergy-like symptoms	×	✓	✓
2. Anti-gliadin IgG	To evaluate celiac disease	×	×	✓
3. Apolipoproteins A and B	To measure cholesterol levels	×	✓	✓
4. Bioavailable testosterone	To evaluate a variety of medical conditions such as infertility in men	×	✓	×
5. Beta-2 microglobulin	To identify the amount of cancer present to inform the blood cell cancer prognosis	×	✓	✓
6. CA 125	To measure the amount of the protein cancer antigen 125 in a patient's blood	×	✓	✓
7. CA 15-3	To monitor a patient's response to breast cancer treatment and recurrence of breast cancer	×	✓	✓
8. CA 19-9	To diagnose and monitor pancreatic cancer	×	✓	✓
9. Cyclic citrullinated peptide antibody	To diagnose and assess a form of arthritis	×	✓	✓
10. Free light chains	To detect, diagnose and monitor plasma cell disorders (a type of white blood cell)	×	✓	✓
11. HER2/neu	To determine how much HER2 (a protein) a tumour makes for the purpose of informing breast cancer treatment	×[3]	✓	✓
12. IGF – 1	To identify growth hormone deficiency	×	✓	✓
13. Sex hormone binding globulin	To evaluate men for low testosterone and women for excess testosterone production, typically for reproductive purposes	×	✓	✓
14. Urease production by *H. pylori*	To diagnose infection due to *H. pylori* bacteria and effectiveness of treatment	×	✓[4]	✓
15. Vitamin B1	To detect a patient's vitamin B1 levels	×	✓	✓
16. Vitamin E	To detect a patient's vitamin E levels	×	✓	✓

Note: These tests are insured by the hospital for hospital patients. This comparison refers to the insurability of the tests as performed for community patients (those seeking health care outside of a hospital).

1. While the Ministry's consulting firm recommended that all 16 of these tests should be insured in Ontario, in some cases it recommended that there be ordering guidelines and/or eligibility criteria for some of these tests.
2. British Columbia's price list of insured tests for community patients was last revised on July 31, 2017. Certain tests are covered in British Columbia only if eligibility criteria are met.
3. A community laboratory service provider in Ontario currently provides this test at no cost to community patients. However, this community laboratory does not receive Ministry funding for this test. The service provider informed us that if it does not receive Ministry funding for this test going forward, it may stop performing the test.
4. Different laboratory tests can be used to detect *H. pylori*. British Columbia covers tests for *H. pylori* that analyze breath and stool specimens provided by patients. One community laboratory service provider in Ontario provides uninsured testing for *H. pylori* using breath samples.

Figure 12: Comparison of a Sample of Uninsured Test[1] Prices Charged by Community Laboratory Service Providers in Ontario and British Columbia

Source of data: Select community laboratory service providers

		Price per Test ($)			
Type of Test	Most Common Purpose of Test	Community Laboratory Service Provider #1 (Ontario)	Community Laboratory Service Provider #2 (Ontario)	Community Laboratory Service Provider #3 (British Columbia)[2]	Difference between Lowest and Highest Price (%)
C-telopeptide	To diagnose patients with osteoporosis	75	20	65	275
Galectin-3	To identify patients with chronic heart failure	85	150	78	92
Cyclic citrullinated peptide antibody	To diagnose and assess a form of arthritis	55	30	30	83
Apolipoprotein B-100	To measure cholesterol levels	35	35	28	25
Herpes simplex type 1 and 2	To diagnose active herpes (a sexually transmitted disease and/or cold sores)	160	140	130	23

1. Community laboratory service providers are not licensed to perform some of these tests. In those cases, the community laboratory service provider will collect the specimen from the patient, charge the patient, and send the specimen out to a different laboratory for testing.
2. Some of these tests are covered in British Columbia only when specific criteria are met. Community laboratory service providers charge patients when they do not meet the eligibility criteria.

providers in Ontario. **Figure 12** shows a comparison of a sample of uninsured test prices charged by two community laboratory service providers in Ontario and a community laboratory service provider in British Columbia.

RECOMMENDATION 3

To ensure that Ontarians are able to access and pay fair prices for the medically necessary laboratory tests they require, we recommend that the Ministry of Health and Long-Term Care analyze the current list of uninsured tests in Ontario (particularly those identified by the consulting firm it engaged) to determine the medical appropriateness of these tests and how these tests are funded in other jurisdictions, and to formally decide whether to fund any of these tests and at what prices.

MINISTRY RESPONSE

The Ministry agrees that the current list of uninsured tests should be reviewed to determine if any of these tests have clinical validity and utility in the community setting. A new test review and utilization committee, which is anticipated to begin work in the 2017/18 fiscal year, will conduct a further review of uninsured tests and develop a process to evaluate uninsured tests in the future.

4.4 More Action Needed to Reduce Unnecessary Testing

The Ministry has not taken adequate actions to reduce unnecessary laboratory tests ordered by physicians for their patients. According to a review (conducted by researchers affiliated with Harvard Medical School in 2013) of various studies on laboratory testing performed around the world, globally the average over-utilization rate (the rate

of unnecessary laboratory tests out of all laboratory tests reviewed by these studies) was over 20%. The Ministry has no process in place to proactively assess and determine the extent of overuse of laboratory tests and its funding of unnecessary testing. It has largely relied on Health Quality Ontario (HQO) to perform research and develop guidelines around overused laboratory tests. HQO is a government agency that reviews many aspects of the Province's health-care system but does not have a focus on laboratory testing specifically.

Unnecessary testing can be defined as tests ordered that do not have evidence to indicate the test is clinically useful for the medical treatment of a patient for a given condition. For example, the Canadian Association of Pathologists identified that it is not necessary to perform repetitive (daily) complete blood counts on a hospitalized patient who is in a stable condition. This does not mean this test is not useful for any patient (for example, such a test may be appropriate for a hospitalized patient who is not in a stable condition).

Unnecessary testing not only wastes health-care resources, but certain tests can potentially lead to medical complications, physical discomfort and emotional stress. For these reasons, eliminating or reducing unnecessary testing is important to improve the quality of patient care and to control the growth of health-care costs.

While the Ministry plays a role in reducing unnecessary testing by setting guidelines over the conditions when a laboratory test can be ordered by an authorized health-care professional, it is up to health-care professionals and community laboratory service providers to follow those guidelines.

Over the last five years, the Ministry has made some changes to reduce unnecessary testing for community patients by restricting the insurance conditions under OHIP for coverage of certain tests, such as only insuring tests when ordered by certain physicians or when assessing patients with certain conditions. However, the Ministry's actions to reduce unnecessary testing, especially vitamin D testing and aspartate aminotransferase (AST) testing (usually used to identify liver damage), did not result in effective or sustainable long-term reductions in testing.

4.4.1 Ineffective Action Taken to Sustain Long-Term Reduction of Unnecessary Vitamin D Testing

During the early 2000s, a multitude of international studies associated vitamin D with the prevention of illnesses such as cancer and cardiovascular diseases. These studies likely contributed to the significant increase in vitamin D testing in Ontario. Between 2004/05 and 2009/10, the frequency of vitamin D testing increased about 19 times (from approximately 40,000 tests to 760,000 tests).

In June 2010, a medical expert group (which became part of HQO when it was formed in 2011) reported that there was insufficient evidence to support the conclusion that vitamin D testing improves non-bone-related health outcomes for conditions such as various types of cancer and cardiovascular diseases. The group therefore recommended against routine vitamin D testing for the general population as it does not add clinical value to improve patient health outcomes. In response to this recommendation, in December 2010, the Ministry stopped funding vitamin D testing for the general population. Vitamin D tests became insured only for patients who are taking drugs that can affect their metabolism of vitamin D as well as those with certain medical conditions, such as bone-health-related medical conditions like osteoporosis and rickets, as well as renal disease.

Although the Ministry acted quickly to restrict unnecessary vitamin D testing in response to HQO's recommendation, and insured testing dropped initially by about 77% (from about 760,000 tests in 2009/10 to 173,000 tests in 2011/12), vitamin D testing at community laboratories has again increased in recent years. Between 2011/12 and 2015/16, the number of insured vitamin D tests more than doubled (from about 173,000 to 385,000 tests), while all other laboratory tests performed

by community laboratories increased only by about 1% on average (from about 119 million to 121 million tests). While this trend could be an indication that the Ministry's restriction has been ineffective in sustaining a long-term reduction in unnecessary vitamin D testing, the Ministry has not investigated the reason for the recent increase in vitamin D testing and has not taken further action to enforce its implementation of the restriction.

4.4.2 Ineffective Action Taken to Reduce Unnecessary Aspartate Aminotransferase (AST) Testing

In 2011/12, 69% of AST testing in community laboratories was ordered by family and general practice physicians, usually to identify liver damage. In August 2012, HQO consulted experts to provide advice on the appropriate use of AST testing in community laboratories. HQO noted that AST testing has limited value in a community setting because it is a relatively non-specific test that may not distinguish liver damage from damage in other tissues, such as heart and muscle cells. Other tests, such as alanine aminotransferase (ALT) testing, are more useful for identifying liver disease. Therefore, HQO recommended that AST testing be ordered only by physicians with expertise in treating liver disorders or on the advice of those physicians. In January 2013, the Ministry implemented this recommendation by insuring AST tests under OHIP only when they are ordered under these eligibility criteria. When the physician indicates the patient's medical condition does not meet the eligibility criteria, the patient has to pay for the test out-of-pocket or through private insurance.

In the year after the Ministry put its restriction in place, the volume of AST testing decreased by 17% (from about 1.97 million tests in 2012/13 to 1.63 million in 2013/14). However, in April 2016, about three years after the Ministry's guideline came into effect, a stakeholder group submitted a study to the Ministry. The study suggested that almost 1.5 million AST tests conducted between April 2014 and March 2015 potentially provided no clinical value to the physicians and patients. These tests were worth about $3.8 million, assuming the current price list for community laboratory services. As a result of this study, the Ministry has asked HQO to further review this situation.

4.4.3 Inadequate Effort to Encourage Reduction of Unnecessary Testing

Many health-care organizations have demonstrated greater interest and success in reducing unnecessary laboratory testing ordered by health-care professionals. Despite successful examples of implementing test-ordering guidelines or initiatives, the Ministry and LHINs have not required hospitals to implement similar guidelines or initiatives to ensure that hospital funding is used to perform only necessary laboratory tests.

One of the successful initiatives to reduce unnecessary laboratory testing is Choosing Wisely Canada, a national campaign organized by leading Canadian physicians that engages clinicians and patients collaboratively to promote the appropriate use of tests and treatment in health care, including laboratory tests. In June 2014, a hospital in Toronto adopted the principles of Choosing Wisely Canada. In September 2014, it implemented an initiative to improve the use of laboratory testing in its emergency department. It has since experienced a reduction in unnecessary laboratory tests:

- In the second year after implementing the initiative, the number of laboratory tests ordered by its emergency department fell by over 15%, even though emergency department visits increased by over 5% during the same period.
- In the first year after implementing the initiative, this hospital's emergency department reduced the volume of 10 common laboratory tests it requested (such as glucose tests and complete blood count), resulting in a reduction of about $157,000 in direct costs associated with performing these tests.

RECOMMENDATION 4

To ensure that the use of unnecessary tests is effectively managed, we recommend that the Ministry of Health and Long-Term Care:

- implement a process to regularly identify potential unnecessary laboratory testing by monitoring test volume increases, requesting unusual test ordering patterns from laboratory service providers, and reviewing academic research studies available in the field;
- establish a process to regularly revise and improve the existing test ordering guidelines and restrictions to eliminate or reduce unnecessary tests; and
- work with Local Health Integration Networks to encourage hospitals to adopt consistent laboratory test ordering guidelines.

MINISTRY RESPONSE

The Ministry agrees with this recommendation. Various ordering guidelines have already been established for community physicians through other established industry standards. In addition, the Ministry's use of a financial cap on community laboratories' funding has protected against increases in utilization by removing the financial incentives for community laboratories to perform more tests than is necessary. A process to regularly review guidelines to reduce unnecessary tests will be established by the test review and utilization committee. This work will also require the co-operation of the Ontario Medical Association.

The Ministry will consult with the Local Health Integration Networks and other stakeholders to consider adopting consistent laboratory test ordering guidelines for hospitals.

4.5 Inadequate Strategy for Genetic Testing Results in Costly Out-of-Country Testing

The Ministry has not kept up with the growing demand for genetic testing. A complex form of laboratory testing, genetic testing involves the examination of an individual's DNA to confirm or rule out a suspected genetic condition or help determine the risk of developing or passing on a genetic disorder. Ontario's medical system has lagged in investment, infrastructure and development of expertise in this area. As a result, many genetic tests have been sent out-of-country, at a significant expense to the Ministry. While the Ministry created the Laboratories and Genetics Branch in September 2015 to address this and other issues, this Branch is still developing its strategy for genetic testing.

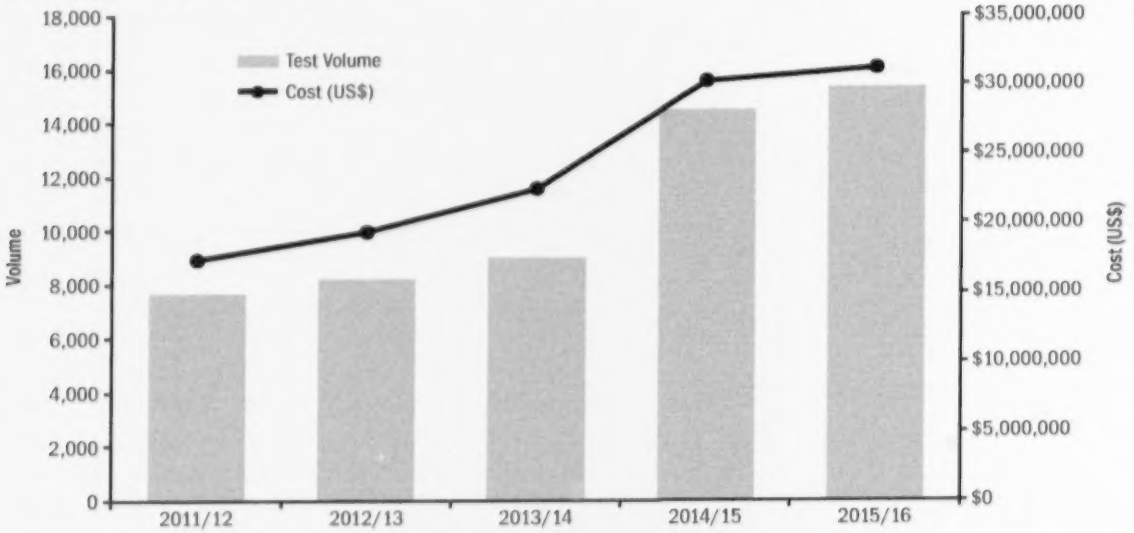
4.5.1 Plan to Increase In-Province Genetic Testing Still Preliminary

Increasing the amount of genetic testing done in Ontario rather than relying on out-of-country genetic testing could reduce the price the Ministry pays to have these tests performed. Ontario has taken some steps in this direction; however, the Ministry's strategy to reduce its reliance on out-of-country testing is still under development.

While physicians can apply to the Ministry's out-of-country program to send specimens outside of Ontario for genetic testing that is not performed within the province, the associated costs to the Province are significant. Between 2011/12 and 2015/16, the number of specimens Ontario paid to send out-of-country yearly almost doubled (from 7,700 to 15,300), and the associated annual costs increased by about 80% (from US$17 million to US$31 million). During this period, Ontario paid total costs of over US$120 million related to over 54,000 specimens that were sent outside the country. **Figure 13** shows the volumes and costs of out-of-country genetic tests between 2011/12 and 2015/16.

Figure 13: Out-of-Country Genetic Test Volume and Cost (US$), 2011/12–2015/16

Source of data: Ministry of Health and Long-Term Care



Note: Test volumes relate to the year a genetic test was paid for, which may not match the year the genetic specimen was sent out-of-country for testing.

Both Alberta and Ontario have been sending specimens to the same provider in the United States to perform a specific type of genetic testing that helps physicians determine treatments to prevent breast cancer recurrence. In 2015/16, Alberta paid about $1 million while Ontario spent almost $10 million out-of-country on this genetic testing (due to the larger number of tests Ontario requested). Alberta informed us that it plans to bring an alternative genetic test into the province instead of sending specimens to the United States for testing.

Alberta estimates that performing this alternative genetic test in the province will achieve an annual savings of at least $500,000 for subsequent years (or 50% of the current total cost of sending tests out-of-country). If Ontario could also achieve similar cost savings, it would save at least US$5 million annually by performing this alternative genetic test in-province instead of sending specimens out-of-country for testing. Despite these potential savings, the Ministry informed us that it has no current plans to perform this test in Ontario and will continue to send specimens for out-of-country testing.

The Ministry has taken some actions to reduce its reliance on out-of-country genetic testing. Between 2014/15 and 2015/16, it provided additional funding to hospitals to perform 46 genetic tests that were previously done outside of Ontario. However, in November 2015, the Laboratory Services Expert Panel indicated that the Ministry had achieved only "modest" overall results in its efforts to bring genetic testing into Ontario.

For example, in 2015, the Ministry started funding specific laboratories to perform non-invasive prenatal testing on pregnant women who met certain risk factors (such as being 40 years old or above). Before then, the Ministry was sending specimens outside of Ontario for these tests. While the test cost about $950 when it was sent out-of-country in 2016/17, the Ministry now pays $395 to laboratories (or savings of almost 60%) to have it performed in Ontario. The Ministry estimated that it saved almost $4.5 million by having this test performed in Ontario in 2016/17 over 8,000 times.

Apart from a few cases, the Ministry has no immediate plans to bring additional genetic tests into the province because it wants to develop a

more comprehensive genetic strategy first, which would include an improved process to identify and bring new genetic tests to Ontario. At the time of our audit, there was still a significant amount of genetic testing being performed out-of-country; between April 1, 2016, and March 31, 2017, the Ministry paid approximately $34 million related to about 10,000 genetic tests performed outside of Canada.

While Ontario has a system in place to co-ordinate access and delivery of genetic testing in the province, the Ministry acknowledged that it has been facing challenges. For example:

- The current system for genetic testing was developed 15 years ago and has not evolved much, resulting in the demand for genetic testing outpacing resources.
- The Ministry's slow response to the growing demand for genetic testing resulted in an increased use of out-of-country genetic testing to meet patient needs.
- Different branches in the Ministry have managed delivery of genetic services, resulting in a lack of co-ordination and weak oversight, such as insufficient policies and quality assurance processes for genetic testing.
- There is no clear pathway for evaluating, approving and funding new genetic tests, which has resulted in difficulties in adopting new technology to benefit both patients and the overall health-care system.

The Ministry informed us that, to address these challenges, it was in the process of developing a new provincial strategy for genetic testing at the time of our audit.

4.5.2 Community Laboratories Restricted from Performing Genetic Testing for Ontarians

Community laboratory service providers informed us that, while they are capable of performing genetic testing, the Ministry has prohibited them from performing these tests, except for three specific cases: non-invasive prenatal testing, tuberous sclerosis testing and retinoblastoma testing (to detect a form of eye cancer).

The Ministry licenses community laboratories to perform over 30 additional genetic tests; however, it allows community laboratories to perform these tests only for non-Ontarians. For example, one community laboratory service provider performs testing related to albinism (a genetic disorder characterized by a lack of pigment), but only for patients referred, for example, through other provincial governments or academic institutions.

We noted instances where community laboratory service providers charge less to perform genetic testing than what the Ministry spends on sending specimens out-of-country for an equivalent test. For example, one community laboratory service provider operating in Ontario is able to perform the previously mentioned genetic test that Alberta brought in-province (see **Section 4.5.1**). This community laboratory service provider charges $4,200 to perform the test in its British Columbia laboratory, which is about 20% less than the Ministry spends ($5,400 at the time of this audit) to have the similar test performed out-of-country. This community laboratory service provider informed us that it could offer this genetic test in Ontario, but it has not been approved to do so.

The Ministry informed us that it has licensed community laboratories to perform genetic testing for non-Ontarians so that community laboratories can develop their genetic testing capabilities without impacting existing hospital funding and testing volumes. The Ministry also indicated that the hospitals may lose the expertise and skill to accurately perform genetic testing if their genetic test volumes are shifted to community laboratories. However, the Ministry does not appear to have considered the consequences of restricting these tests to hospitals that may lack the capability to meet the needs of Ontarians.

4.5.3 Delays in Processing Time of Out-of-Country Applications for Genetic Testing

The amount of time the Ministry took to approve out-of-country genetic testing applications was longer than its target at the time of our audit. This could delay how quickly the results of these tests are available for making decisions related to clinical interventions and treatments.

In January 2017, the Ministry transferred its oversight of the out-of-country genetic testing from the Health Services Branch to the Laboratories and Genetics Branch (Branch), which targets reviewing and processing the out-of-country applications within 14 business days from receipt of an application. The Branch has been able to process urgent applications for genetic testing (such as genetic tests for cancer treatment) within four business days. However, it was unable to meet its 14 business-day target for all other types of out-of-country genetic testing requests, which could delay clinical interventions and treatments.

At the time of our audit in June 2017, the Branch took on average 48 business days to process most out-of-country applications for genetic testing, significantly longer than its target. Following our audit fieldwork in July 2017, the Ministry eliminated this backlog by hiring additional staff and streamlining its process. As a result, the Branch has been able to process out-of-country genetic testing applications within its 14 business-day target.

4.5.4 Long Wait Times to Obtain Counselling Services for Genetic Testing

The Ministry has not measured and monitored if patients have access to counselling services for genetic testing on a timely basis.

Genetic counsellors are medical professionals who are specially trained to help patients understand their genetic test results and recommend actions to ensure that patients have the best possible health outcome. Based on their experience with genetic testing, genetic counsellors are generally better suited than health-care professionals to educate patients on genetic conditions.

As a result of the growing demand for genetic testing, patients have experienced long wait times to see genetic counsellors. The longer a patient waits to see a genetic counsellor for initial consultation or to learn about test results, the longer the patient may also have to wait to start any necessary treatment. Such delays can result in the worsening of the patient's condition.

While there is no provincial wait-time target for patients to see genetic counsellors, guidelines published by the Human Genetics Society of Australasia (comprising Australia and New Zealand) indicated that non-urgent patient referrals should be seen by a genetic counsellor or clinical geneticist (a physician who evaluates patients for genetic conditions) within 12 weeks. However, the wait time in Ontario can be significantly longer than this guideline. Our review of wait-time information and our discussions with genetic counsellors at four hospitals found, for example:

- For cancer inquiries, the wait time to see a genetic counsellor at one hospital was about six months.
- For pediatric inquiries (such as parents seeking diagnosis for their child's developmental delay), the wait time to see a clinical geneticist at a different hospital was about 14 months.

RECOMMENDATION 5

To ensure that genetic testing is provided to Ontarians appropriately and cost-effectively in a timely manner, we recommend that the Ministry of Health and Long-Term Care:

- evaluate the existing provincial capacity and funding for genetic testing to determine if they are sufficient to meet the growing demand for genetic testing and genetic counsellors;
- analyze the costs and benefits of current genetic testing providers to determine the most appropriate provider of each genetic test for Ontarians;

- continue to process out-of-country genetic testing applications within turnaround-time targets to prevent recurrence of a backlog; and
- work with Local Health Integration Networks and hospitals to develop provincial wait-time targets for genetic counsellor services, regularly measure actual wait times against these targets, and take corrective action if the targets are not met.

MINISTRY RESPONSE

The Ministry welcomes this recommendation. As part of the Genetic Services Framework Strategy, the Ministry plans to analyze the costs and benefits of existing genetics funding and current genetic testing providers to develop an updated funding and genetics service delivery model that meets future needs, including services provided by genetic counsellors.

The Ministry will evaluate all current genetic testing providers—hospitals, community and non-Ontario laboratories—to determine the best sourcing of genetic testing that ensures quality, meets service delivery needs, and maximizes value to the system. Enabling these activities will require the co-operation of Ontario genetics laboratories and clinics to share operational, resourcing and costing information with the Ministry for evaluation of existing provincial capacity and genetic services funding. The Ministry will also continue to process out-of-country genetic test requests within a turnaround-time target.

The Ministry agrees that any future service delivery model should have appropriate performance measures (such as wait-time targets) with mechanisms in place for corrective action if targets are not met. The Ministry will work with Local Health Integration Networks, hospitals and the broader genetics sector to streamline and evolve genetic services, including the development of performance standards that make sense, are achievable, and help to move the system forward.

4.6 More Effort Needed to Improve Underserved Areas of Community Laboratory Services

The Ministry has not regularly performed any detailed analysis to identify areas of the province underserved by community laboratory service providers' collection centres, and has not taken effective action to improve the accessibility, availability and capacity of these services throughout the province.

4.6.1 Limited Data Collection and Analysis on Availability of Community Laboratory Services

The Ministry has not established a provincial target for the availability of collection centres across the province, but only set a target for rural areas: 90% of rural Ontarians are to be within a 30-minute drive of a collection centre. Although the Ministry met this target for rural areas, it did not consider the differences in capacity (such as operating hours or the number of blood-drawing chairs) that could affect how many patients the collection centres can serve. For example:

- One of the community laboratory service providers has one of its collection centres in North York open an average of 10 hours for six days each week with six blood-drawing chairs on-site, while another collection centre in Stayner (Simcoe County) is only open four hours a day for three days each week with two blood-drawing chairs on-site.
- Five collection centres (all operated by one community laboratory) in St. Catharines have different total operating hours per week (ranging from 25 hours to about 45 hours per week), and only one of them operates on Saturdays.
- Six collection centres (all operated by one community laboratory) in Guelph have different total operating hours per week (ranging from 40 hours to 47.5 hours per week), and only one location operates on Saturdays.

The Ministry has not collected sufficient information to assess the capacity and use of community collection centres. Although it collects operating hours from each community collection centre on an annual basis, it has not used this information to assess differences in total operating hours of community collection centres in each region of the province. Also, community laboratory service providers only report to the Ministry the total number of laboratory tests performed annually, but currently do not report the number of patients served or specimens collected by each of their collection centres. Without this information, the Ministry cannot assess if the current capacity of community collection centres is sufficient to meet patient needs across the province.

Under their fee-for-service arrangement with the Ministry, community laboratory service providers have full discretion to determine where they operate their collection centres. The Ministry has not conducted any regular reviews to assess the availability of collection centres across the province and determine where additional ones needed to be opened to meet patient needs.

In Ontario, when the Ministry receives a request from a community laboratory service provider to open a new collection centre, the Ministry does not consider whether there are other community collection centres in the area. It only assesses if the proposed new collection centre location is within two kilometres of an existing hospital laboratory. In those cases, the Ministry asks the hospital if it has concerns that the proposed new collection centre will potentially reduce its own testing, as laboratories need to perform sufficient tests to maintain their expertise.

We noted that the Ministry could have learned and applied practices from other jurisdictions and similar programs in Ontario to assess the availability of laboratory services. For example:

- British Columbia's Ministry of Health requires each collection centre to report its operating hours and number of blood-drawing chairs annually as part of the province's laboratory licensing requirements. This information, along with data on the number of patient visits to each collection centre, is used to assess laboratories' requests for opening new collection centres and determine if there is a need for more collection centres in specific areas. In contrast, Ontario only collects operating hours from each community collection centre on an annual basis, but does not use the information to assess the needs and locations of new collection centres.
- Laboratories and independent health facilities (which provide diagnostic services such as x-rays and ultrasounds) are very similar in terms of services and operations. In order to identify areas underserved and overserved by independent health facilities, the Ministry calculated the number of services billed per capita by hospital out-patients and by independent health facilities in various areas. Then it compared these numbers to the provincial average. In 2014, the Ministry also implemented a facility relocation policy to enable independent health facilities to move from adequately served or overserved areas to underserved areas.

4.6.2 More Action Required to Identify and Improve Availability of Community Laboratory Services

The Ministry does not currently collect useful information on collection centre capacity throughout the province. Without this information, it is not clear whether the Ministry's actions have resulted in the appropriate availability of community laboratory services across the province, especially in underserved areas. For example:

- In 2013/14, the Ministry established a fund to "increase access while maintaining existing laboratory services" in order to tie some of its funding to community laboratory service providers to an increase in collection centres' operating hours. However, the Ministry did

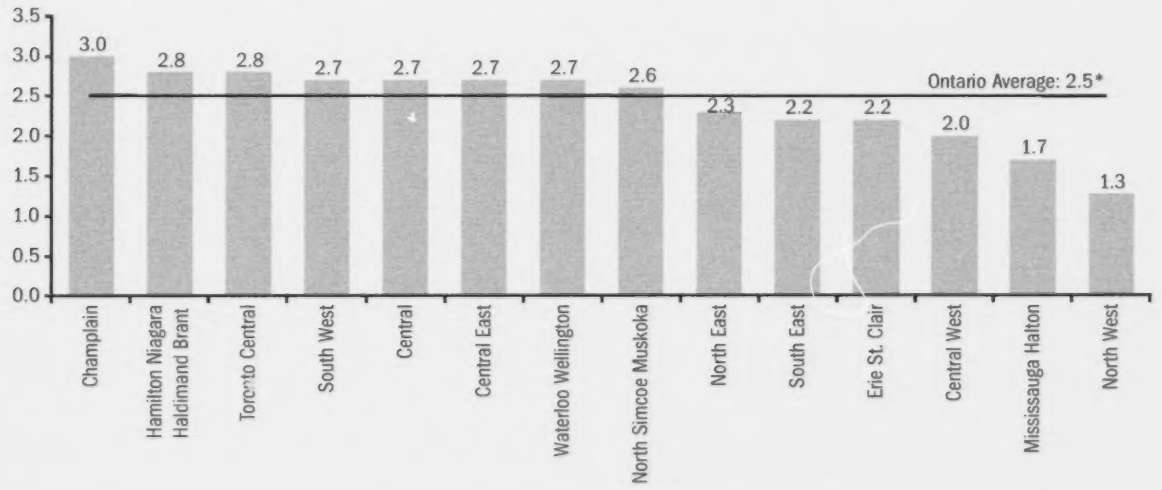
not require that the increase in operating hours had to be in underserved areas. For example, a laboratory could receive funding for keeping its collection centres open for two more hours in the evening, even if the collection centre was in a well-served part of the province and no one actually went to the collection centres during these hours. In 2015/16, the Ministry cancelled this fund to meet cost-reduction goals as part of the government's 2015 Budget. The Laboratory Services Expert Panel's 2015 review supported this funding cancellation as it identified that the fund was "an inadequate tool" to generate sufficient access and performance improvement.

- Under the short-term (three-year) transfer payment agreements that the Ministry plans to enter into with community laboratory service providers in 2017/18 (see **Section 4.7.1**), providers that operate collection centres in northern or rural parts of Ontario will receive more money than those in other parts of the province ($12.76 per patient served in a rural area; $14.26 per patient served in a rural and remote northern area; and $10.76 per patient served in an urban area). The Ministry expects this change will give more incentive to community laboratory service providers to maintain or increase the number of their collection centres in underserved areas. However, we question the effectiveness of this change in improving the availability of laboratory services, because the underserved areas are not necessarily located in rural and remote northern areas, based on our analysis of the ratio of community collection centres by LHIN (see **Figure 14**). For example, Mississauga Halton LHIN (an urban area) has the province's second-lowest ratio of community collection centres, which is actually worse than rural and northern areas such as the North East LHIN and the North Simcoe Muskoka LHIN. To more fully understand which parts of the province are underserved, the Ministry needs to collect and analyze information on the capacity of collection centres across the province.

We also noted that Ontario has relatively fewer specimen collection centres than other provinces. The collection centre rate (including both hospital and community collection centres) per 100,000

Figure 14: Number of Community Specimen Collection Centres per 100,000 People by Local Health Integration Network (LHIN), 2017

Source of data: Ministry of Health and Long-Term Care



* The provincial average for community specimen collection centres per 100,000 people is 2.5, while the provincial average for all specimen collection centres (including both hospital and community) per 100,000 people is 4.0.

people in Ontario has been low in comparison with other jurisdictions. According to a study in 2012 by a consultant for British Columbia's Ministry of Health, Ontario's collection centre rate per 100,000 people was four, which was lower than Alberta (five), British Columbia (six), Quebec (six) and Manitoba (15). We obtained 2017 data and repeated the calculation based on the study's methodology. We found that the collection centre rate per 100,000 people has remained at about four in Ontario, indicating no significant improvement since 2012. While this analysis did not consider the capacity of collection centres in each province, it supports that there is a need for the Ministry to gather more information on the capacity to determine if all areas of the province have reasonable access to collection centres.

RECOMMENDATION 6

To ensure that Ontarians have timely access to community laboratory services, we recommend that the Ministry of Health and Long-Term Care:

- establish regional targets to monitor and assess the availability and accessibility of community specimen collection centres;
- collect and analyze the operating hours, locations and distribution of community specimen collection centres on a regular basis (such as annually); and
- identify underserved areas for community specimen collection centres and take corrective action.

MINISTRY RESPONSE

The Ministry agrees with this recommendation. Access continues to be an important focus for the Ministry. In the past, the Ministry has worked with stakeholders to restore access in areas where services were previously withdrawn and to increase hours of operation across the province. Access to community laboratory services will be addressed by the Ministry's Community Laboratory Modernization Strategy.

The Ministry has established an access measure through a drive-time target for Ontario residents for specimen collection for all types of collection services. The licensing process already collects logistical information regarding specimen collection centres, and this will be further enhanced within the new transfer payment agreements with providers that are being implemented in 2017/18.

Underserviced northern rural areas are currently being identified and reviewed as part of the Northern and Rural Laboratory Services Strategy, a key component of the Community Laboratory Modernization Strategy. This strategy will begin with a focus on laboratory services in the communities within the North East and North West Local Health Integration Networks. In the future, the Ministry plans to consider community laboratory services in other rural parts of Ontario.

4.7 Inadequate Oversight of Community Laboratory Services

The Ministry has not consistently tied its payments to community laboratory service providers to their performance because the Ministry has not established and tracked useful performance measures to monitor the community laboratory sector. The Ministry also has not verified if community laboratory service providers have been billing OHIP accurately for tests actually performed.

4.7.1 Comprehensive Performance-Based Contracts with Community Laboratory Service Providers Needed

While the lack of regular performance measurement and reporting on community laboratory service providers has been a concern in Ontario for more than 20 years, the Ministry has done little to address this concern until 2017/18. Specifically:

- In 1994, an external advisory committee commissioned by the Ministry released its

Laboratory Services Review report, which indicated that to effectively oversee the laboratory sector, the Ministry needed "mechanisms to monitor and evaluate outcomes" related to the performance of laboratory service providers.

- In 2015, the Ministry commissioned the Laboratory Services Expert Panel (Expert Panel), which noted two significant concerns: absence of formal performance-based contracts between the Ministry and each community laboratory service provider to clearly identify each party's role and responsibilities; and lack of measurable performance standards and indicators for the Ministry to assess the performance of community laboratory service providers.
- In 2016, the Ministry's submission to Cabinet on modernizing the community laboratory sector noted that "for the past 18 years the funding model has been provider-centric and volume-driven, instead of patient outcomes-based service delivery. Service quality for patients has been defined by the supplier."

The Expert Panel recommended the Ministry establish long-term (seven to 10 years) performance-based contracts with community laboratory service providers to ensure stability in the delivery of laboratory services. Despite this, the Ministry plans to enter into short-term (three-year) contracts with these providers instead.

The Ministry informed us that it is pursuing short-term contracts with the community laboratory service providers to allow for changes to happen more quickly in the community laboratory service sector without restricting the Ministry's ability to change contract terms in the future. As part of the short-term contracts, the Ministry will modify the cap that limits the total amount of funding each community laboratory service provider can receive from its total billings each year. However, senior staff at some community laboratory service providers expressed to us the concern that the short-term contracts proposed by the Ministry do not give them the incentive to focus on providing high-quality laboratory services, because:

- Short-term contracts will reallocate funding based on community laboratory test volumes every year, which will encourage community laboratory service providers to focus on competing in large population areas in order to seize market share from each other. This will not improve accessibility for patients in underserved areas, but will further disadvantage remote rural locations that are already not adequately served.
- Short-term contracts will discourage community laboratory service providers from investing in new equipment, which is generally expected to be used for five to seven years. Staff at community laboratory service providers informed us that they feel less comfortable investing in new equipment and technologies given the increased uncertainties over their funding and profitability under short-term agreements.

4.7.2 No Regular Review of Inappropriate Billings by Community Laboratory Service Providers

The Ministry pays community laboratory service providers based on the amount and type of tests they perform according to a price list. However, the Ministry has not taken sufficient action to verify that community laboratory service providers have been billing accurately for tests actually performed.

The Ministry used to conduct audits of community laboratories to verify that the tests they performed and billed were supported by signed physicians' requisitions. It stopped conducting these audits in 2013. Under the current fee-for-service arrangement, the Ministry primarily funds community laboratory service providers based on a price list for each test performed, up to a cap or maximum amount for each provider. Between 2011/12 and 2015/16, community laboratory service providers collectively billed over 30% more

than the cap, meaning that they were receiving their maximum payments allowed (see **Section 4.1.1**). Consequently, the risk of paying community laboratory service providers for erroneous or fraudulent billings has been relatively low.

However, the risk of inappropriate billings by community laboratory service providers may increase once the Ministry implements changes to the community laboratory sector in 2017/18. First, the Ministry plans to introduce a new price list in 2017/18, which will reduce prices for many tests that community laboratories perform (see **Section 4.1**). Second, the Ministry plans to enter into new transfer payment agreements with community laboratory service providers, under which the funding cap of each community laboratory service provider will be revised annually, and funding to each one will increase or decrease based on changes in its test volumes over the past two years compared to other community laboratory service providers (see **Section 4.7.1**). These changes will increase the incentive for community laboratory service providers to overstate the number of tests they perform in order to maximize their total billings.

Even under the current system where billings are capped and laboratories have nothing to gain by overbilling, the Ministry's prior years' audits of community laboratories have identified instances where some providers have billed the Ministry for tests that they could not prove to be legitimate. For example, in the Ministry's final audit of a community laboratory service provider in 2013, the Ministry concluded that the provider may have overbilled it by over $25 million between 2009/10 and 2012/13. The Ministry based its conclusion on its inability to obtain appropriate evidence that a sample of the tests it reviewed as part of the audit had actually been ordered by an authorized healthcare professional.

The Ministry informed us that, as part of the new transfer payment agreements with community laboratory service providers, it plans to reinstate an audit function by setting up an audit group that will review specific incidents or concerns relating to the community laboratory sector. However, it does not plan to perform regular reviews to identify or investigate inappropriate billings from community laboratory service providers, unless specific issues are brought to its attention.

RECOMMENDATION 7

To ensure that community laboratory service providers operate effectively and efficiently and bill accurately for tests actually performed, we recommend that the Ministry of Health and Long-Term Care:

- assess the costs and benefits of short-term versus long-term (recommended by the Laboratory Services Expert Panel in 2015) performance-based contracts with community laboratory service providers; and
- reinstate periodic reviews of community laboratory service providers to verify that the laboratory tests they billed were actually performed.

MINISTRY RESPONSE

The Ministry agrees with this recommendation. As part of the Community Laboratory Modernization Strategy, transfer payment agreements with community laboratories are currently under development and the term of these agreements has been carefully considered. The need to change the length of these contracts will be reconsidered after the initial contract's expiry. Audit provisions included in the transfer payment agreements will support periodic reviews of community laboratories.

4.8 Inadequate Oversight of Physicians' In-Office Laboratory Testing

The Ministry has not verified that all physicians who perform in-office laboratory testing have been billing accurately for tests actually performed, and it has continued to exempt these physicians from

licensing and quality management requirements that other laboratory service providers (including community, hospital and Public Health Ontario laboratories) must follow.

4.8.1 Limited Investigation of Large In-Office Laboratory Test Volumes and Billings by Physicians

Physicians can perform point-of-care tests that are generally simple to do, such as urine dipstick tests that detect pregnancy, drugs of abuse, and disorders like urinary tract infections, kidney disease and diabetes. However, the Ministry did not check the accuracy of all physicians' billings related to performing these tests, including those who billed much higher than the average physician for in-office laboratory testing.

Based on our review of 2015/16 OHIP data provided by the Ministry, over 11,200 physicians billed the Ministry approximately $83 million for performing about 10.6 million in-office laboratory tests on a fee-for-service basis. Of those, 120 family and general practice physicians accounted for half of all billings and tests performed by physicians who billed OHIP for in-office laboratory testing (or $42.2 million for 5.1 million tests performed). We further noted that 15 of those 120 physicians were responsible for about 15% of all billings and tests performed by physicians who billed OHIP for in-office laboratory testing (or $12.4 million for 1.57 million tests performed).

Figure 15 provides a summary of these 15 family and general practice physicians. Each one performed between about 75,000 and 182,000 tests per year, which was about 114 times to 275 times higher than the average test volume (about 660 tests) of a typical family and general practice physician who billed OHIP for in-office laboratory testing. They each billed the Ministry about $600,000 to $1.4 million per year, ranging from 128 times to almost 300 times higher than the average billings (about $4,700) of a typical family and general practice physician for in-office testing.

Figure 15: Fifteen Family and General Practice Physicians with Highest Test Volume and Billing Amount for Laboratory Testing Performed, 2015/16

Source of data: Ministry of Health and Long-Term Care

Physician	Test Volume	Billing Amount ($)
1	181,736	1,402,755
2	124,559	985,295
3	121,946	940,796
4	113,621	920,368
5	104,864	845,697
6	103,986	826,731
7	102,239	816,828
8	101,507	790,920
9	93,445	789,613
10	98,613	756,291
11	95,031	729,875
12	91,810	712,065
13	81,457	674,049
14	75,036	614,991
15	75,454	597,092
Average*	**662**	**4,721**

* The averages were calculated using data from all family and general practice physicians who billed OHIP for laboratory tests performed in their offices on a fee-for-service basis, excluding these 15 top-billing physicians.

The Ministry indicated that most of these top-billing physicians provided addiction medicine treatment for their patients. Therefore, the Ministry expects these physicians to perform more tests related to identifying and monitoring the level of drugs in a patient's body than other physicians. Between 2011/12 and 2015/16, the Ministry only reviewed the billings related to eight of the 120 family and general practice physicians identified above. Only one of these reviews related to the 15 top-billing family and general practice physicians noted above. While the Ministry collected some information during these reviews to understand the size of the physicians' practices, in the vast majority of cases the Ministry has not collected details on the size of top-billing physicians' practices to determine if they accurately billed for laboratory testing provided to their patients or if

they billed the Ministry fraudulently for laboratory testing not performed.

4.8.2 Physicians' In-Office Laboratory Testing Exempt from Licensing and Quality Management Requirements

All licensed laboratories (community, hospital and Public Health Ontario laboratories) and specimen collection centres in Ontario must participate in a quality management program operated by the Institute for Quality Management in Healthcare (Institute), which is a subsidiary of the Ontario Medical Association (OMA). As reported in our 1995 and 2005 audits on laboratory services, we noted during our current audit that physicians are still not required to be licensed by the Ministry to perform laboratory services. They continue to be exempt from participating in the quality management program, even though in 2015/16, physicians who bill OHIP performed 10.6 million in-office tests.

The Ministry allows physicians to collect certain patient specimens and perform generally simple point-of-care tests in their offices so they can diagnose and treat their own patients in their offices without sending specimens to a laboratory for analysis. While point-of-care tests can provide faster results to physicians to help them treat their patients faster, there can be concerns with how accurately these tests are performed. Point-of-care testing is often performed by clinical staff, such as a nurse, as opposed to other laboratory tests that are performed by laboratory staff with specialized training. Unlike physicians who do in-office testing, when hospital and community laboratories (or staff such as nurses who are associated with these laboratories) perform point-of-care tests, they must meet certain licensing and quality assurance requirements. For example:

- they must develop standards and processes for how point-of-care testing should be done;
- staff competence to perform the tests needs to be regularly assessed; and
- staff require retraining or recertification and continuing education to perform the tests.

Every four years, the Institute examines whether hospital and community laboratories comply with these requirements. Between 2012 and 2016, the Institute most commonly found issues at licensed laboratories with point-of-care testing (accounting for about 17% of total issues identified by the Institute). This raises concerns about the performance of point-of-care testing done by physicians, who are not subject to the Institute's quality management program.

Previous expert reviews and our audits have repeatedly identified physicians' exemption both from the licensing requirement and from participation in Ontario's quality management program as a concern. Nevertheless, we noted that this matter has remained unresolved over the last 20 years because the Ministry has not taken any action to address this matter. Specifically:

- Our 1995 audit noted that the Ministry's Laboratory Service Review Committee had recommended in 1994 that laboratories in physicians' offices be licensed to bring them under the quality assurance provisions of inspection and proficiency testing. Although the Ministry agreed with this recommendation, we noted during our 2005 value-for-money audit that no action had been taken in this regard.
- Our 2005 audit recommended the Ministry assess whether the quality assurance process for licensed laboratories should be applied to laboratory services performed at physicians' offices. The Ministry agreed with the recommendation and indicated that it would initiate discussions with the College of Physicians and Surgeons of Ontario (College) on this matter. However, we have found that the Ministry has made no further progress.
- The 2015 Laboratory Services Expert Panel recommended that "the current physician exemption from the Licensing Act should be rescinded."

The Ministry informed us that testing in physicians' offices is not licensed or subject to the Province's quality management program because physician practice is under the jurisdiction of the College. However, the College informed us that it does not measure or regularly review the proficiency of physicians' offices in performing laboratory testing. The College indicated that physicians are expected to take continuing professional development courses and that its Peer and Practice Assessment Program (Program) would review whether physicians appropriately ordered a test and properly interpreted test results. Although participation in the Program is required under legislation, only a small portion of physicians (approximately 2,600) are selected each year to participate in it. (In 2015/16, over 30,000 physicians billed OHIP.) Therefore, despite the existence of the Program, the point-of-care testing done by many physicians is not regularly assessed. The College informed us that there could be benefit in having an independent and objective quality assessment program (like the one done by the Institute) for physicians who perform point-of-care tests.

RECOMMENDATION 8

To ensure that billings by physicians for their in-office testing are accurate and physicians are performing these tests properly, we recommend that the Ministry of Health and Long-Term Care:

- identify and collect information on physicians' practices with high volumes of in-office testing and high billing amounts related to these tests, on an ongoing and timely basis;
- investigate physicians whose billings related to in-office testing are not supported by the information collected; and
- implement quality assurance requirements for laboratory tests done in physicians' offices.

MINISTRY RESPONSE

The Ministry welcomes this recommendation. Although the Ministry does audit physicians who have a pattern of high billings for certain services, the Ministry will identify potential changes to existing payment accountability processes in an effort to increase efficiency and effectiveness. It is important to note that certain specialized practices will appropriately bill high volumes of certain laboratory services (for example, addiction medicine).

The Ministry agrees and supports that a quality program should be provided for in-office physician laboratory testing. The Ministry will engage and consult with both the Ontario Medical Association and the College of Physicians and Surgeons of Ontario in order to introduce this change.

4.9 Inadequate Oversight of Laboratory Services Provided by Hospital Laboratories

Hospitals fund their laboratory services through global budgets from their respective Local Health Integration Networks (LHINs), which are overseen by the Ministry's LHIN Liaison Branch. We noted that, in spite of the involvement of these co-ordinating bodies, hospital laboratory services were generally not provided to Ontarians in a co-ordinated and consistent manner.

4.9.1 Lack of Regional Co-ordination and Integration of Hospital Laboratories

While some hospitals have worked together to develop regional laboratory networks that resulted in cost savings, this practice has not been widely adopted across Ontario.

Each hospital is responsible for determining what laboratory services to offer its patients. In some regions of the province, hospitals have worked together to create regional networks for

laboratory services. Regional networks for laboratory services have various benefits, which include:

- buying equipment and supplies in bulk to obtain volume discounts and achieve cost savings;
- developing policies and procedures jointly to ensure best practices are followed as well as ensure the uniformity of operations and test results; and
- centralizing tests at certain laboratories to maximize the use of equipment and minimize the need to buy and maintain equipment and supplies at multiple hospital sites.

Other provinces have been moving toward setting up regional networks for laboratory services. For example, as of April 1, 2017, 123 laboratories in Quebec's Ministry of Health and Social Services formed 11 regional clusters. It estimated that it will spend about 15% to 20% less on laboratory testing annually (excluding specimen collection centre and genetic testing costs, which were not included in the cost estimate) as a result of obtaining discounts from bulk purchasing equipment and supplies as well as reducing staff and equipment through centralizing laboratory tests within each regional cluster.

In Ontario, regional laboratory networks exist in only six of the 14 LHINs; but even in these six LHINs, not all hospitals participate in their respective regional networks. Examples of the existing regional networks include the Eastern Ontario Regional Laboratory Association (EORLA) in the Champlain LHIN, CoLabs in the Hamilton Niagara Haldimand Brant LHIN, and Northeastern Ontario hospitals in the North East LHIN.

- EORLA is the most fully formed and integrated regional network. It is a not-for-profit organization established in 2012 that has formal agreements with 16 hospitals in the Champlain LHIN. EORLA bulk buys equipment and supplies on behalf of its member hospitals, creates uniform laboratory operating policies and procedures, centralizes some laboratory tests in the region to only one laboratory, and has the ability to transfer laboratory staff working for EORLA throughout the region to any laboratory. In 2015/16, EORLA consolidated testing to identify diseases caused by bacteria, fungi, parasites and viruses from seven regional laboratories into one laboratory. By becoming a regional laboratory network, and consolidating testing and improving efficiencies, EORLA was able to decrease its annual staffing expenditure by about $1 million from 2012/13 to 2016/17.
- CoLabs is a laboratory network similar to EORLA. CoLabs was formed in 2012 as a partnership by eight hospitals in the Hamilton Niagara Haldimand Brant LHIN. The hospitals work together collaboratively to streamline and standardize processes through joint development of operating policies and procedures, and centralization of some laboratory tests in the region. In 2016, CoLabs made a first attempt to do a single bulk purchase of all equipment and supplies for testing blood disorders, resulting in about $400,000 in savings for the hospitals in the network. At the time of our audit, the second bulk-buy initiative was under way to purchase equipment for testing blood transfusions, which CoLabs estimated will save $200,000 per year for the hospitals in the network.
- In Northeastern Ontario, 10 hospitals have worked together since 2005 to create joint standards and centralize some laboratory tests to examine tissue samples at one hospital laboratory. Staff at one of the hospitals involved in the network informed us that they do not calculate accumulated savings among all the hospitals, but estimated that a joint procurement of laboratory supplies resulted in about $150,000 in savings (or 5% of total laboratory expenditures) in 2015/16.

4.9.2 No Oversight of Billing Practices by Hospital Laboratories

Hospitals can send laboratory testing to other hospitals if their equipment is down or if they find that it is not cost-effective to do the tests themselves. However, the Ministry has not provided any guidelines and has not collected any information (such as test volumes done by one hospital on behalf of others or fees charged by one hospital to others) to ensure fair and reasonable prices are being charged to other hospitals.

Without guidelines from the Ministry, hospitals have been using inconsistent billing practices when providing laboratory services on behalf of other hospitals. Hospital staff expressed frustration to us over the lack of provincial guidelines in this area. Without information on test volumes and funding flow between hospitals for tests hospitals perform for each other, the Ministry does not know the actual costs of operating hospital laboratories and cannot allocate funding to hospitals appropriately. This lack of oversight can also result in hospitals taking advantage of other hospitals to generate revenues for themselves.

We reviewed information provided by some hospitals that charge other hospitals to do laboratory testing on their behalf, and found that they were inconsistent in their billing practices. For example:

- Two hospitals performed tests on behalf of other hospitals and charged other hospitals a percentage of the prices based on the Ministry's price list for community laboratory services (one charging 70%, and another charging either 100% or 80%, depending on the tests).
- Another hospital that performed tests for other hospitals charged prices based on its direct costs to perform the tests plus a 30% margin to cover its fixed costs.
- One hospital found itself in puzzling situations, first when another hospital referred a patient to one of its specialty programs and then when it referred a patient to another hospital's specialty program. It found it had to pay the costs of the patient's tests in both cases, regardless of whether it was the referring hospital or the receiving hospital.

Figure 16 provides examples of different prices that three hospitals charged for performing the same test on behalf of other hospitals. (We show results for five tests.) The difference between the lowest and highest price charged by each hospital was significant, ranging from 31% to 176%.

RECOMMENDATION 9

To ensure that best practices are shared between hospital laboratories to improve the co-ordination and consistency of hospital laboratory services, we recommend that the Ministry of Health and Long-Term Care work

Figure 16: Differences in Prices Charged by a Sample of Hospitals for the Same Test

Source of data: Select hospitals

Type of Test	Hospital 1 ($)	Hospital 2 ($)	Hospital 3 ($)	Difference Between Lowest and Highest Price ($)	Difference Between Lowest and Highest Price (%)
Potassium	1.81	2.07	5.00	3.19	176
Vitamin B12	10.13	11.58	15.00	4.87	48
Partial thromboplastin time (used to check for bleeding problems in a patient)	5.07	5.79	7.20	2.13	42
Ammonia (used to detect an elevated level of the byproduct that can be caused by liver disease or kidney disease)	14.11	16.13	12.00	4.13	34
Thyroid stimulating hormone	6.88	7.86	9.00	2.12	31

with Local Health Integration Networks and laboratory service providers to:

- conduct an analysis of the costs and benefits of moving toward a regional laboratory system; and
- establish guidelines for hospitals to determine the test prices they charge to each other.

MINISTRY RESPONSE

The Ministry supports this recommendation. Each Local Health Integration Network (LHIN) that does not have a hospital laboratory network already in place will be asked to consider the feasibility of doing so.

The Ministry will consult with the LHINs and other stakeholders regarding the feasibility of adopting consistent laboratory referral guidelines for hospitals.

4.10 No Consistent Performance Monitoring of Laboratory Service Providers

The Ministry has not set provincial performance targets or collected performance information to measure, monitor and determine if laboratory services have been provided efficiently, and in a consistent and timely manner across Ontario.

4.10.1 No Consistent Performance Measurement and Reporting of Laboratory Services

With no provincial performance targets and measures in place, the extent of performance measurement and reporting varies across Ontario, depending on the type of laboratory service provider. Overall, there has been very limited public reporting on the performance of laboratory services. While Public Health Ontario publicly reports on a number of performance measures related to its laboratory services, the Ministry does not collect or report on key performance indicators related to other laboratory service providers. **Figure 17** identifies the differences in performance measurement and public reporting related to each laboratory sector.

According to a 2015 review conducted by the Laboratory Services Expert Panel, Alberta is the only province that has used performance targets and measures to oversee laboratory service providers. Key metrics that are tracked for hospital and community laboratory service providers in Alberta include patient wait times, test turnaround times, and patient/health-care provider satisfaction. In contrast, the Ministry has not established any key performance targets and measures in Ontario. Each laboratory sets its own targets to assess its own performance, but the Ministry does not collect this information.

Our review of performance measures used by a sample of different laboratory service providers (community, hospital and Public Health Ontario) found significant variations in their performance, even within the same type of laboratory service provider (see **Appendix 3**). For example:

- The specimen rejection rate (percentage of times that a test cannot be done due to a mistake made while collecting or handling a specimen) ranged from 0% to 4.4% among hospital laboratories in Ontario.
- The blood culture contamination rate (percentage of times when a blood culture is contaminated with bacteria or other organisms as a result of using an improper specimen collection or handling technique) ranged from 0% at a community laboratory to 6.7% at one hospital laboratory.

4.10.2 No Data Collection and Monitoring of Wait Times for Laboratory Services

The Ministry has not set wait-time targets and has not collected wait-time information to measure and monitor the length of time that patients have to wait to have their specimens collected at hospital

Figure 17: Performance Measures and Public Reporting of Performance by Laboratory Service Providers
Prepared by the Office of the Auditor General of Ontario

Type of Laboratory Service Provider	Performance Measures	Public Reporting
Community laboratory	Under current fee-for-service arrangement: • Test volume Under new transfer payment agreement*: • Performance measures under development at the time of our audit	×
Hospital laboratory	• Test volume • Laboratory expenditure • Laboratory workload units (the amount of time spent on laboratory testing by staff)	×
Public Health Ontario laboratory	A variety of performance indicators, such as: • Test volume • Percentage of certain laboratory tests completed within target turnaround time (from receiving specimens to reporting test results) • Number of complaints received related to Public Health Ontario's products and services	✓
Physician (in-office)	• Test volume	×

* The Ministry plans to enter into short-term (three-year) transfer payment agreements with community laboratory service providers in 2017/18.

or community collection centres. Therefore, the Ministry does not know if the laboratories collected specimens from Ontarians within a reasonable amount of time.

While the Ministry does not collect or monitor wait times for specimen collection, many laboratories measure their own wait times against targets they set themselves. Based on our analysis of data provided by hospital and community collection centres, we identified differences in wait-time targets and actual wait times for specimen collection. For example, while one community laboratory service provider targets serving 90% of its patients within 30 minutes of their arrival at a collection centre, another targets serving 90% of its patients within 40 minutes of their arrival. For hospital collection centres, wait-time targets also varied, ranging from 20 minutes to 45 minutes. **Figure 18** shows various wait-time targets and actual wait times from a sample of hospitals and community laboratory service providers for 2016/17.

We noted that, unlike Ontario, hospitals and community laboratory service providers in Alberta must submit wait-time information to Alberta Health Services, which targets serving patients within 30 minutes of their arrival at a collection centre. Alberta Health Services also shares wait-time information with all laboratories in Alberta to enable each laboratory to gauge its performance relative to its peers.

The Ministry could have better met the needs of patients if it had focused on tracking and improving wait times across Ontario. Surveys of both physicians and patients indicated that wait times for specimen collection need improvement. For example:

- According to a 2013 survey conducted by a laboratory services stakeholder organization, the specific area needing improvement most frequently mentioned by patients (in 30% of the patient responses that identified areas for improvement) was wait times for specimen collection.
- According to a 2015 survey conducted by the Ministry, 84% of physicians indicated that an appropriate wait time for a patient to see a technician at a community collection centre is between five and 20 minutes, which is shorter than the current wait-time targets (30 minutes and 40 minutes) set by the community

Figure 18: Examples of Wait-Time Targets and Actual Wait Times for Specimen Collection at Selected Hospital and Community Laboratory Service Providers, 2016/17

Source of data: Select community laboratory service providers and hospital laboratory service providers

Type of Laboratory Service Provider	Specimen Collection Wait-Time Target[1] (minutes)	Avg. Wait Time for Specimen Collection[1] (minutes)	Specimens Collected within Wait-Time Target (%)
Community Laboratory 1	30	14	87
Community Laboratory 2	40	17	89
Hospital Laboratory 1	30	10	92
Hospital Laboratory 2	n/a[2]	n/a[2]	n/a[2]
Hospital Laboratory 3	20	15	70
Hospital Laboratory 4	30	30	56
Hospital Laboratory 5	20	12	83
Group Hospital Laboratory 1[3]	45	n/a[2]	n/a[2]
Group Hospital Laboratory 2[3]		10	100
Group Hospital Laboratory 3[3]		15	100

1. Some laboratory service providers' wait-time targets are designed to capture the average wait for most, but not all, patients. For example, some community laboratory service providers aim to serve 90% of patients within their stated wait-time targets.
2. N/A refers to the fact that a laboratory either does not have an on-site collection centre or that it does not collect wait-time information related to its collection centre.
3. These are individual hospital results provided by a single regional laboratory network, which includes 18 hospital laboratories associated with 16 hospitals. The network sets wait-time targets and monitors wait times on behalf of its member hospitals. **Appendix 3** provides results of all 18 hospital laboratories within this network.

laboratory service providers in our samples. Based on our review of data from 2016/17 provided by these providers, they were on average serving patients in less than 20 minutes of their arrival at collection centres (see **Figure 18**).

- The Ministry at one time planned to collect wait-time information by providing community laboratory service providers with funding to develop a method for tracking and reporting this information accurately. In 2013/14 and 2014/15, the Ministry entered into an agreement with seven of the eight community laboratory service providers, making $8.5 million of funding dependent on whether these providers were able to develop and implement a consistent wait-time definition they could use to capture and report data to the Ministry. Although the service providers successfully completed this task and received funding in full, the Ministry abruptly discontinued its wait-time data collection to save costs as part of a broader Ministry-wide cost-savings initiative. The Laboratory Services Expert Panel identified in its 2015 report that this funding process was "an inadequate tool" to generate sufficient access and performance improvement. It suggested that "an overall redesign to the process of contracting and managing laboratory services is required to maximize value."

RECOMMENDATION 10

To ensure that the laboratory sector in Ontario is operating effectively and efficiently as well as providing value and timely services to Ontarians, we recommend that the Ministry of Health and Long-Term Care:

- establish standard performance targets and measures for community and hospital laboratories, collect and analyze performance information from laboratories, and take corrective action if targets are not met; and

- set wait-time targets for specimen collection in hospitals (for out-patients) and community specimen collection centres, regularly collect and assess wait times, and take corrective action if targets are not met.

MINISTRY RESPONSE

The Ministry fully supports establishing and collecting/analyzing performance measures for community laboratories and for establishing wait-time targets for community specimen collection centres. The Ministry has collected measures in the past and is proposing to build on this work by introducing a number of key performance indicators in the new transfer payment agreements with the community laboratories. These indicators will allow the Ministry to measure and manage performance of the community laboratory system over several domains. These domains include patient access, quality of service, availability of services, patient and provider experience, and reporting.

The Ministry will review the feasibility of wait-time targets for specimen collection with the Local Health Integration Networks and hospitals to determine if these targets are feasible.

4.11 Inadequate Oversight of Quality Management Program

The Ministry has not collected useful information to assess the results of the Institute for Quality Management in Healthcare's (Institute's) quality management program on an ongoing basis and identify where the quality of laboratory services needs improvement across the province.

4.11.1 Ministry Collected Limited Information on Quality Management Program

The Ministry has been relying on the Institute's quality management program to assess whether laboratories are providing accurate test results and, when they are not, to ensure that appropriate and timely corrective action is taken. The Ministry routinely obtains quarterly and annual reports from the Institute that contains information on the quality management program. The Ministry also receives reporting whenever a more significant deficiency is identified by the Institute. However, we noted that the Ministry did not request or receive enough sufficient information to assess the performance of laboratories participating in the Institute's quality management program on an ongoing basis.

The Institute's quarterly and annual reports to the Ministry contain limited, high-level summary information on the Institute's quality management activities (such as the number of site assessment visits done by the Institute) as opposed to detailed information on how individual laboratories are performing (such as the number of issues the Institute found during assessment visits of laboratories or proficiency testing). Since the Ministry does not require public disclosure and reporting, the Institute does not disclose any details of the results of its laboratory assessments to the public.

Both our 1995 and 2005 audits of Health Laboratory Services raised the concern that the Ministry did not have sufficient information on the quality management activities conducted by external parties. In our 1995 audit, we recommended that the Ministry be advised as soon as possible of any laboratory that did not meet accepted standards, and of remedial action being taken by staff of the quality management program. In our 2005 audit, we found that the Ministry did not receive information on the number of errors that had been identified for each licensed laboratory; therefore, it was not aware when laboratories performed poorly or which ones they were. Even though this matter has been raised repeatedly, we noted that it has remained mostly unresolved over the last 20 years.

4.11.2 Ministry Has Not Collected Accreditation On-Site Assessment Results

The Ministry has not collected sufficient data from the Institute to identify and determine if there were regional differences in the quality of laboratory services that warranted corrective actions.

The Institute performs an on-site assessment at each of the licensed laboratories every four years to review and determine if each laboratory's policies and procedures conform to its requirements. The Institute considers any instance where a laboratory's policies and procedures do not conform to these requirements as a non-conformance (such as not documenting test procedures or not having evidence of ongoing training of laboratory staff).

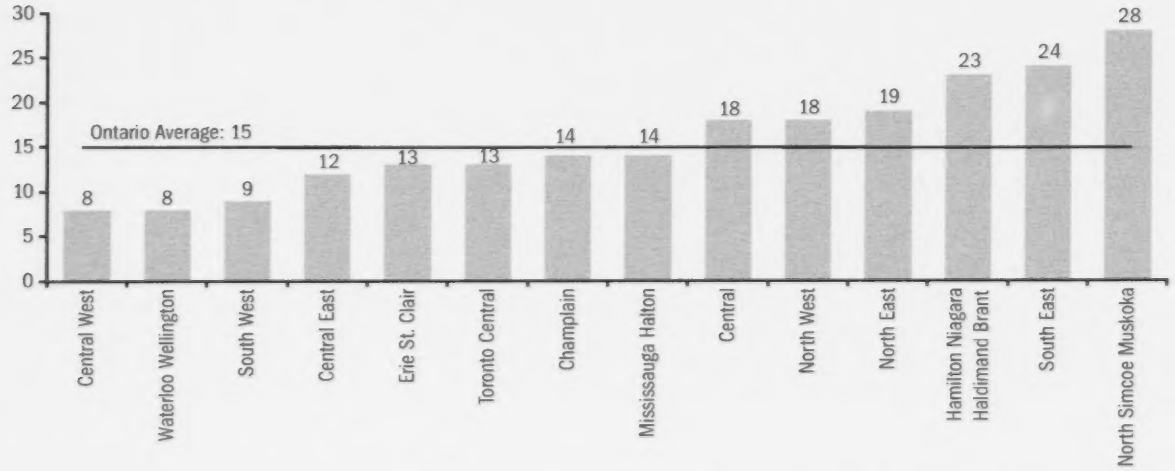
Between 2012 and 2016, the total number of non-conformances was about 800 per year, on average. During this period, on average, the overall conformance rate was about 97%, which the Institute considered as high and an indication that laboratories generally had effective processes in place, given that they had to comply with over 400 individual requirements. (This assumes they were licensed for all laboratory tests, as some requirements do not apply if a laboratory does not perform every type of test.)

The Ministry did not regularly request the results of the Institute's assessment visits for further review and analysis. Based on our review of data from the Institute for the assessment visits between 2013 and 2016, we noted some common types of non-conformances and regional patterns in non-conformances that may warrant further investigation by the Ministry. For example:

- The most common type of non-conformances were related to point-of-care testing (17% of all non-conformances), laboratory systems for tracking issues with testing (16%) and laboratory equipment and supplies (12%).
- The average number of non-conformances was 15 for the province, but varied from one LHIN to another, ranging from eight non-conformances at some LHINs (Central West LHIN and Waterloo Wellington LHIN) to 24 or more non-conformances at other LHINs (North Simcoe Muskoka LHIN and South East LHIN). **Figure 19** shows the average number of non-conformances per assessment visit by LHIN.

Figure 19: Average Number of Non-conformances Noted During the Institute for Quality Management in Healthcare's (IQMH's) Assessment Visits, by Local Health Integration Network (LHIN), 2013–2016

Source of data: Institute for Quality Management in Healthcare



Note: A non-conformance is any instance where a laboratory's policies and procedures do not conform to the IQMH quality-management program's requirements.

4.11.3 Ministry Has Not Collected Proficiency Testing Results

The Ministry requires all licensed laboratories to participate in the proficiency testing program. The Institute defines proficiency testing as the determination of a laboratory's performance by means of inter-laboratory comparisons. The Institute conducts proficiency testing by sending out proficiency testing materials several times throughout the year to licensed laboratories and having them report test results back to the Institute, which then identifies test results that do not meet its standards for specimen handling or test analysis/reporting. The Institute considers any instance where a laboratory's test result does not meet its specimen-handling or test-analysis/reporting standards as an error.

Between 2011/12 and 2015/16, the average proficiency testing error rate was below 1%, which the Institute considered low or satisfactory. While there is no consistent target error rate associated with proficiency testing across Canada, Alberta targets its laboratories to achieve a 5% or lower error rate from its proficiency testing program.

The Ministry did not regularly receive the results of the Institute's proficiency testing for further review and analysis. Based on our review of proficiency testing error rates between 2011/12 and 2015/16, we noted that even though the overall error rate was below 1%, the error rate for different type of tests varied, and that this might warrant further investigation by the Ministry. For example, in 2015/16, error rates ranged from 0.04% for pathology (tests related to disease diagnosis) to 1.8% for bacteriology (tests to detect bacterial infections).

RECOMMENDATION 11

To ensure that the quality management program provides useful information to identify where the quality of laboratory services needs improvement across the province, we recommend that the Ministry of Health and Long-Term Care obtain and analyze appropriate accreditation and proficiency test results from the Institute for Quality Management in Healthcare on a regular basis and evaluate if any additional corrective action is warranted.

MINISTRY RESPONSE

The Ministry supports the recommendation and agrees to appropriately enhance the quality management program reporting for licensed laboratories and specimen collection centres currently provided by the Institute for Quality Management in Healthcare (Institute). This reporting is necessary to ensure accountability of licensed laboratories and specimen collection centres to regulatory requirements and accountability of the Institute for the Ministry funding it receives. The Ministry is currently engaged in this work as it negotiates a new agreement with the Institute, which is expected to take effect in 2018/19.

4.12 Areas of Improvement for Quality Management Program

While Ontario has a quality management program in place, improvements can be made. These include moving to a more rigorous accreditation standard and performing unannounced site visits.

4.12.1 More Rigorous Standard Is Available for On-Site Assessment Visits

The Institute performs an on-site assessment of all licensed laboratories every four years, whose purpose is to provide accreditation to the laboratories. The Institute's accreditation is based on standards such as those developed by the International Organization for Standards (ISO), like ISO 15189, which requires standardized processes and procedures at laboratories for both quality system and technical requirements.

The Institute offers a more rigorous program, called ISO 15189 Plus, which is a standard recognized worldwide that requires a more frequent visit (known as a surveillance visit) every two years

between the regular accreditation assessment visits. Licensed laboratories in Ontario perform a self-assessment to show their compliance with the Institute's requirements instead of having the Institute perform a surveillance visit. More frequent visits can be advantageous as they allow for the faster identification and resolution of issues at the laboratories. While not all provinces require laboratories to follow a program similar to this more rigorous program, New Brunswick as well as Newfoundland and Labrador require all laboratories in their provinces to be accredited using ISO 15189 Plus standards.

As of July 2017, 58 (17 community laboratories and 41 hospital laboratories) of the 198 laboratories in Ontario voluntarily paid and received accreditation for the ISO 15189 Plus from the Institute to further ensure that they followed the more rigorous program standards.

4.12.2 On-Site Assessment Visits Announced in Advance

The Institute gives advance notice to laboratories regarding when it will perform an assessment visit during its regular four-year cycle. The next visit is tentatively scheduled as soon as an assessment visit is done, and it is then confirmed approximately 90 days before the visit.

We identified two separate laboratory accreditation programs that conduct unannounced visits, the College of American Pathologists (CAP) and the Joint Commission. One of the programs identifies a three-month window when its inspection will occur, and the other program may perform an unannounced visit with no notice between 18 and 36 months following its previous visit. The CAP indicated that unannounced visits both require and ensure that laboratories are in continuous compliance with all requirements.

RECOMMENDATION 12

To ensure that Ontario's quality management program continues to operate effectively in assessing the quality and accuracy of laboratory services provided by all licensed laboratories and specimen collection centres in Ontario, we recommend that the Ministry of Health and Long-Term Care conduct an analysis of similar programs in other jurisdictions to identify best practices that can be implemented in Ontario (such as implementing more rigorous accreditation standards and performing unannounced accreditation assessment site visits).

MINISTRY RESPONSE

The Ministry supports the recommendation and agrees to conduct an analysis of quality management programs in other jurisdictions. A cost-benefit analysis will support the Ministry's decision-making about potential changes to Ontario's program. The Ministry anticipates that it will initiate a jurisdictional analysis in 2018/19.

Appendix 1: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Processes are in place to ensure that funding and resources are allocated appropriately to laboratories to meet the needs of Ontarians, used for the purposes intended, administered with due regard for economy and efficiency, and reviewed on a timely basis for reasonableness.
2.	Procedures are in place to ensure that laboratory services are performed accurately on a timely basis, consistently across the Province, and in accordance with applicable legislation, policies, standards and best practices to meet the needs of Ontarians.
3.	Processes are in place to ensure that the costs of providing laboratory services are managed properly and monitored on a timely basis.
4.	Performance measures and targets are established, monitored and compared against actual results to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.
5.	Accurate, timely and complete financial and operational information is regularly collected from the laboratories to assess their performance, effectiveness and efficiency, and results are publicly reported.

Appendix 2: Implementation Status of Recommendations from 2015 Laboratory Services Expert Panel Report

Sources of data: Ministry of Health and Long-Term Care

	Recommendation	Implementation Status (as of June 30, 2017)
1.	Negotiate long-term performance-based contracts (approximately seven to 10 years, with reopeners) directly with individual labs, with price discounts from present levels with a deadline (six months) to come to agreement, failing which an RFP will be initiated	**In the process of being implemented:** The Ministry is developing Transfer Payment Agreements (TPAs) for implementation in 2017/18 as part of its Community Laboratory Modernization Strategy. See **Section 4.7.1**.
2.	Discontinue the Utilization Discount Modifier and Access and Performance Fund	**In the process of being implemented:** The Ministry plans to discontinue the Utilization Discount Modifier in 2017/18. (The modifier reduced the amount community laboratories received for performing testing for health-care professionals who ordered tests that exceeded a set threshold.) **Implemented:** The Ministry cancelled the Access and Performance Fund (which tied some of the Ministry's funding to community laboratories to achieving various performance targets) in 2015/16. The Ministry is re-establishing performance measures as part of TPAs that are expected to be in place with community laboratory service providers in 2017/18.
3.	Move to a single core funding envelope with test schedule, combining existing segregated funding envelopes as market saturation occurs	**In the process of being implemented:** The TPAs that the Ministry plans to establish with community laboratory service providers streamlines all Ministry funding to community laboratory service providers into the single agreement, where possible.
4.	Establish New Technology Testing Fund via RFPs open to new market entrants	**In the process of being implemented:** The Ministry plans to introduce a New Tests and Technology Fund in 2018/19 to help community laboratory service providers adopt new tests and technologies that improve patient outcomes and the patient experience.
5.	Create a Small Labs Opportunity Fund to establish a level playing field for performance measurement and reporting	**In the process of being implemented:** The Ministry plans to implement a three-year Mitigation Fund in 2017/18 for small and large community laboratory services providers. The Ministry expects that this Fund will allow community laboratory service providers to transition to the new funding model. See **Section 4.1.1**.
6.	Establish a provincial process to formally evaluate new laboratory tests, recommend or not recommend such tests, and retire obsolete testing within a regularly updated Schedule of Benefits	**In the process of being implemented:** The Ministry does not currently have a process to regularly evaluate and determine whether newly developed tests are medically necessary and should be funded. The Ministry plans to establish a test review and utilization committee by late 2017/18 to regularly evaluate the price list.

	Recommendation	Implementation Status (as of June 30, 2017)
7.	Require public reporting of laboratory performance and accreditation results	**Not implemented (under consideration):** The Ministry plans to include performance measures as part of the TPAs it plans to enter into with community laboratory service providers in 2017/18. The accreditation status of each laboratory continues to be posted on the Institute for Quality Management in Healthcare's (IQMH's) website. The Ministry is still considering additional public reporting of accreditation results in the future. See **Sections 4.10** and **4.11**.
8.	Develop and deploy a Province-wide appropriateness/utilization program with supporting tools (e.g., electronic order entry prompts)	**In the process of being implemented:** The Ministry expects to establish a test review and utilization committee in late 2017/18 to address the issues related to appropriate utilization of laboratory tests and funding for unnecessary tests.
9.	Establish a focal point for Laboratory Program leadership within government and strengthen capacity in contract negotiation and contract and relationship management, supported by robust analytics and an appropriate audit/inspection regime	**Partially implemented:** The Ministry established the Laboratories and Genetics Branch in September 2015 to fund and oversee community laboratories. As part of the TPAs with individual community laboratory service providers, the Ministry has proposed inspection and audit provisions that would strengthen accountability. See **Section 4.7.2**.
10.	Modernize and streamline licensing requirements and processes	**In the process of being implemented:** The Ministry has required all licensed specimen collection centres to be accredited in addition to the laboratories; and has updated its licensing system to allow licensed laboratory service providers to electronically renew licenses online throughout the year. The Ministry is reviewing the licensing requirements and process to further modernize and streamline the licensing system.
11.	Establish independence of the Institute for Quality Management in Healthcare and develop a cost recovery model for accreditation	**Not implemented (under consideration):** The Ministry is still considering the most suitable governance structure and mechanism of payment for the Province's quality management program and plans to conduct a jurisdictional review to better understand other models both within and outside of Canada.
12.	Remove impediments to e-ordering/e-signature and expedite implementation with appropriate safeguards	**In the process of being implemented:** The Ministry is currently in the policy development and early design stage for e-ordering/e-signature.
13.	Review policy on point-of-care testing and home and community collection to ensure equity and consistency	**In the process of being implemented:** The Ministry is reviewing and considering extending its existing quality management framework to alternate settings such as point-of-care testing sites. Under the TPAs that the Ministry plans to enter into with community laboratory service providers, the Ministry plans to collect information on home specimen collections.
14.	Introduce independent and regular patient satisfaction surveys for laboratory services, with sufficient breadth and depth to inform regional service adjustments	**In the process of being implemented:** The TPAs that the Ministry plans to establish with community laboratories in 2017/18 is expected to include patient satisfaction as a performance measure.

	Recommendation	Implementation Status (as of June 30, 2017)
15.	Conduct detailed assessment and develop recommendations on the approach to optimizing value across the broader laboratory system as a next phase of study to cover: a. Strategically position genetic testing services to meet current and future needs b. Champion the role and contribution of Ontario's research-intensive hospitals in experimental test development as part of the formal process to assess and approve new health technologies in Ontario c. Identify opportunities to balance hospital out-patient testing and community laboratory testing, where appropriate and more convenient for patients and providers d. Conduct a reference, full cost accounting study across the broader laboratory sector (community, hospital and public health) to inform rationalization of test menu across sectors e. Provide quality oversight and develop comparable payment for physician in-office testing in relation to community laboratory testing f. Expedite OLIS for remaining hospitals, community laboratories and physicians conducting in-office testing, and facilitate interoperability with local information systems g. Local Health Integration Network (LHIN) to take leadership in rationalization and optimization of hospital laboratory capacity in geographically proximal areas h. Explore opportunities to allow routine public health testing to be conducted by community labs	**Not implemented:** The Ministry is currently working on the modernization of community laboratory services. The Ministry plans to conduct a review of hospitals and public health laboratories starting in 2018/19 and the broader sector recommendations of the Laboratory Services Expert Panel.

Appendix 3: Performance Measurement by Laboratory Service Provider, 2016/17

Sources of data: Community laboratory service providers, hospital laboratory service providers, Public Health Ontario and Ministry of Health and Long-Term Care

Community Laboratory Service Provider	Specimen Rejection Rate[1] (%)	Blood Culture Contamination Rate[2] (%)	Avg. Ministry Payment Per Test ($)[3]	Routine Blood and Chemistry Tests Completed within Target Turnaround Time[4] (%)	Wait Time at Specimen Collection Centres		
					Wait-Time Target (minutes)[5]	**Avg. Wait Time (minutes)**	**Specimens Collected within Wait-Time Target (%)**
1	0.9	0.0	5.45	94	30	14	87
2	0.2	0.6	5.31	99	40	17	89

Hospital Laboratory Service Provider	Specimen Rejection Rate[1] (%)	Blood Culture Contamination Rate[2] (%)	Avg. Cost Per Test ($)[3]	Avg. Turnaround Time of Urgent Blood Test to Measure Overall Health[6] (minutes)	Wait Time at Specimen Collection Centres		
					Wait-Time Target (minutes)[5]	**Avg. Wait Time (minutes)**	**Specimens Collected within Wait-Time Target (%)**
1	0.8	0.3	12.92	6	30	10	92
2	4.4	2.5	11.79	15	n/a[7]	n/a[7]	n/a[7]
3	0.3	0.8	10.33	17	20	15	70
4	1.4	1.6	10.77	15	30	30	56
5	0.6	0.7	7.34	22	20	12	83
6	n/a[7]	0.6	12.82	60	n/a[7]	n/a[7]	n/a[7]
7	0.0	1.1	7.75	10	n/a[7]	n/a[7]	n/a[7]
8	0.0	4.0		n/a[7]	n/a[7]	n/a[7]	n/a[7]
9	0.0	3.9		n/a[7]	n/a[7]	n/a[7]	n/a[7]
10	0.1	n/a[7]	11.40[8]	n/a[7]	n/a[7]	n/a[7]	n/a[7]
11	0.1	4.6		n/a[7]	n/a[7]	n/a[7]	n/a[7]
12	0.1	6.7		n/a[7]	n/a[7]	n/a[7]	n/a[7]
Group Hospital Laboratory[9]							
1	0.3		29.52	11		n/a[7]	n/a[7]
2	0.4		12.88	18		10	100
3	0.0		21.96	14		15	100
4	0.4		12.37	10		n/a[7]	n/a[7]
5	1.2		34.83	12		21	100
6	0.7		15.46	17		n/a[7]	n/a[7]
7	0.1		18.63	10		22	100
8	0.0		14.02	15		9	100
9	0.9	not individually	10.77	6	not	n/a[7]	n/a[7]
10	0.1	tracked	14.74	19	individually	20	100
11	0.8		13.31	9	tracked	16	100
12	0.4		9.58	10		15	100
13	1.0		7.14	10		16	100
14	0.0		12.08	43		8	100
15	1.4			20		21	100
16	1.1		6.88[8]	26		30	77
17	1.3			24		28	100
18	2.5		15.49	25		6	100
Group result		**2.5**			**45**		

Public Health Ontario Laboratory[10]	Specimen Rejection Rate[1] (%)	Avg. Cost Per Test ($)[3]	Tests Completed within Target Turnaround Time (%)		
			Manual Tests[11]	Semi-Automated Tests[11]	Automated Tests[11]
1	1.6	18.34	99.1	95.5	99.5

1. Specimen rejection rate is the percentage of specimens collected that could not be tested (due to a mistake made while collecting or handling the specimen) divided by total specimens collected.
2. Blood culture contamination rate is generally calculated as the percentage of blood cultures contaminated with bacteria (as a result of using an improper collection or specimen handling technique) divided by all blood cultures collected or tested.
3. Note 2 in **Figure 2** identifies how payment/cost per test is calculated based on 2015/16 data.
4. Community laboratory service providers target providing test results for routine blood and chemistry (analysis of bodily fluids) within 24 hours after the specimen was picked up and transferred to a laboratory for testing. In 2015/16, this type of test accounted for about 75% of the testing that these service providers performed. Some laboratory service providers include other types of testing in this measure, which represents less than 1% of the total tests those laboratories included in this measure.
5. See **Figure 18** for additional details on laboratory wait-time targets.
6. This test measures blood characteristics to detect a wide range of disorders, including anemia, infection and leukemia; it is most commonly ordered on an urgent basis when done for a patient being treated in an emergency department. Turnaround time is the amount of time it takes to perform this test.
7. N/A refers to the fact that the laboratory either does not perform what the associated metric covers or does not track information on the performance of this activity.
8. Some costs and volumes related to these hospitals are tracked in aggregate, as they all relate to the separate laboratories/sites of one hospital or a hospital group.
9. Group Hospital Laboratory represents 18 hospital laboratories associated with 16 hospitals. These hospital laboratories are operated by a not-for-profit organization that is responsible for performance monitoring for these hospital laboratories. Some performance measures are done at an individual hospital level and some are done at the organizational level, where the individual performance of each hospital laboratory is not separately tracked.
10. Public Health Ontario Laboratory data is an aggregate of all 11 Public Health Ontario Laboratories.
11. Public Health Ontario tracks the percentage of times it performs a test within its target turnaround time (from the time a specimen is received by Public Health Ontario until the test has been performed and the test result reported back to the ordering health-care professional). Three individual tests are used as proxies for the three main ways that laboratory tests can be performed, and are specifically monitored: (1) manual tests that require a laboratory professional to analyze a specimen; (2) automated tests that are performed by laboratory equipment with minimal intervention by a laboratory professional; and (3) semi-automated tests that require laboratory equipment and analysis by a laboratory professional.

Ministry Funding and Oversight of School Boards

1.0 Summary

The Ministry of Education (Ministry) funds 72 district school boards to provide elementary and secondary education to about two million students (as of the 2016/17 school year). The school boards comprise 31 English public boards, 29 English Catholic boards, four French public boards and eight French Catholic boards. Collectively, there are approximately 4,590 schools, 113,600 teachers and 7,300 administrators in the system.

The Province shares responsibility with municipalities for funding school boards. Each municipality collects from its property owners the Education Property Tax, which it remits to its local school boards. In the 2016/17 school year, the Ministry and municipalities combined provided school boards with $22.9 billion in operating funding through what is known as the Grants for Student Needs. These comprise foundation grants (intended to cover the basic costs of education common to all students and all schools) and special purpose grants (intended to address specific needs that may vary among school boards). Also, the Ministry provided an additional $212 million in operating funding to school boards through transfer payments called Education Programs—Other (EPO). These two funding streams represent about 90% of the operating funding available to school boards. The remaining 10% is available to school boards primarily through funds generated by the schools themselves, and grants and fees from other provincial ministries and the federal government.

Province-wide, about 30% of the GSN funding comes from the Education Property Tax while the remaining 70% comes from the Ministry.

With respect to oversight of school boards' use of operating funds, the Ministry is responsible for the development and implementation of policy for funding the boards. This includes the administration of operating grants and the implementation and monitoring of policies and programs. It is also responsible for providing advice and assistance on financial matters related to school boards. Its key oversight functions include monitoring the financial health of Ontario's school boards; conducting enrolment audits; developing audit tools and the framework for school boards' audit committees and regional internal audit teams; and establishing reporting and accountability requirements associated with administering grants to school boards.

We noted that the Ministry receives considerable information from school boards to monitor student performance and the boards' financial situation. In addition, we found that the Ministry has processes in place to check the reasonableness of financial data submitted to the Ministry electronically. Specifically, it monitors budget submissions to ensure school boards are in compliance with legislated

limits on in-year deficits. It also conducts audits of enrolment data. However, we found there are still opportunities for the Ministry to improve its oversight of school boards.

Most significantly, we found that the Ministry does not assess and address whether students with similar needs receive the same level of support no matter where they live in the province. This is for several reasons, including that the Ministry does not confirm that special purpose funding is spent as intended, does not allocate funding based on actual needs, and does not analyze whether additional funding provided for some students is actually achieving the intended results. There are often significant differences between funding allocated for specific purposes and the amounts school boards actually spend for these purposes; if the Ministry analyzed this information, it might highlight issues with the validity of its funding formula.

Also, we noted that the Ministry gives school boards considerable discretion in how they spend the funding they receive. Its justification for this is that school boards are each governed by an elected board of trustees who have responsibility for making autonomous decisions based on local needs. For the 2016/17 school year, about 84% of operating funding from the Ministry could be spent at the school boards' discretion including about two-thirds of the special purpose grants—provided for specific groups of students, for specific purposes, or "top-ups" to the foundation grants. If the majority of the funding for the 13 special purpose grants is discretionary, then the needs that these grants were originally intended to meet are potentially not being met.

Our more significant audit findings are as follows:

- **Funding formula uses out-of-date benchmarks and is due for a comprehensive external review.** In 2002, an independent task force reviewed the Ministry's complex formula for determining school boards' funding. The task force recommended that the Ministry annually review and update the benchmarks used in the formula and conduct a more comprehensive overall review of the formula every five years. Fifteen years later, the Ministry has not commissioned another independent review of the funding formula. With respect to benchmarks, although the Ministry regularly updates those benchmarks associated with negotiated labour costs, it does not regularly update others, which are based on socio-economic and demographic factors. For example, the majority of special purpose funding that is calculated and allocated based on census data, approximately $1 billion, uses census data that is more than 10 years old.
- **Grants for specific education priorities are not always allocated according to actual student needs.** The Special Education Grant is intended for students who need special-education programs and services. However, half of the special-education funding is allocated based on a school board's average daily enrolment of all its students, instead of the number of students who are receiving special-education programs and services. But the portion of special-education students in each board is not the same. This percentage ranged from 8% to 28% depending on the board. We also noted that special education needs are generally growing faster than total enrolment—over the 10-year period ending 2015/16, total student enrolment decreased 5% provincially while special education enrolment increased by 21%. We found that if the Ministry had allocated this half of the special-education funding based on the actual number of students receiving special-education programs and services, $111 million would have been allocated differently across the boards. Based on our calculation, 39 boards would have received an average of $2.9 million more in funding, and 33 boards would have received an average of $3.4 million less. One board would have received $10.4 million

more, while another board would have received $16.1 million less.

- **The Ministry is not ensuring that funding for specific education priorities is being spent as intended.** In 2016/17, only 35% of $10.9 billion in special purpose funding was restricted in use; that is, it had to be spent for the purposes for which it was allocated. Except for restricted funding, the Ministry does not require boards to report how the individual grants that comprise the overall Grants for Student Needs (GSN) were spent. Rather than report expenses back to the Ministry according to how funding was allocated, school boards are required to report all expenses under five general expense categories: instruction; administration; pupil transportation; pupil accommodation; and "other." This means that where funding is provided for a specific purpose, such as for teaching English as a second language, its use is reported back to the Ministry, combined with expenses for all other purposes, under the five categories. Further, school boards report their total expenses from all sources of funding, not only what was provided by the Ministry. This prevents the Ministry from understanding whether the funding allocations, particularly for special purpose grants, reflected the actual needs of school boards. For some school boards, we noted differences between what boards were allocated and what they actually spent. For example, about three-quarters of school boards spent at least $100,000 less than their allocated amount for school repairs and renovations, with one board spending $13.9 million less than allocated. On the other hand, almost 80% of school boards spent at least $100,000 more than their allocated amount for special education, with one board spending as much as $81 million more than allocated.
- **The Ministry does not know whether additional funding for some students is achieving intended results.** Although the Ministry allocates significantly more money per student to some boards rather than others because of such factors as the socio-economic conditions in the area, geographic location, and the level of salaries of teachers, it does not know if this additional funding is achieving the intended results. This is, in part, because it does not compare and analyze actual expenses of school boards on a per-unit basis, such as per student or per school. The Ministry told us it does not perform such an analysis because school board unit costs can be significantly impacted by regional cost differences and demographics. However, we noted that the Ministry does not even compare boards with similar attributes, such as those located within the same geographic area, boards with similar demographics, or boards with similar population density. Such analysis could help the Ministry identify boards that are not operating efficiently or highlight where further review is necessary. Our analysis of unit costs showed significant cost variances by region. However, we also noted significant unit costs variances between boards in the same region. For example, the average instructional cost per student in rural northern boards ranged from $11,800 to $17,000.
- **Still unclear if correlation exists between unit costs and student performance results.** The amount school boards spend on classroom instruction does not appear to have a direct relationship to student performance. Our analysis showed boards in the north spent more per student on instruction compared with boards in the south, but performance results in northern boards was much lower. However, French-language boards spent more on instruction per student and achieved higher student performance on average than English-language boards. If the Ministry analyzed this data in greater detail, it could gain a better understanding of what additional

funding measures could potentially improve student achievement, and which ones are unlikely to positively impact student results.

- **Students performing below provincial standard in mathematics.** Students have been performing below the standard in Grades 3 and 6 math and Grade 9 applied math since at least 2008/09. However, the Ministry has not acted quickly enough to bring about improvement in math results. In fact, the elementary level math results have gotten worse. The main root causes of poor performance identified by the Ministry, following consultation with stakeholders initiated in November 2015, included the need for educators to increase their knowledge of the mathematics curriculum, related pedagogy (effective teaching strategies), and effective assessment and evaluation practices. We also noted that elementary schools have single-subject teachers for certain subjects, including French, physical education and music, but generally not mathematics. Starting in September 2016, the Ministry announced $60 million to help support students achieve better results in math.
- **Deteriorating schools and low school utilization are posing challenges to school boards.** Between 2011 and 2015, the Ministry engaged a third party to assess the condition of each school in the province, resulting in an estimate that total repair costs needed up to 2020 would be $15.2 billion. At the same time, almost 600 schools (or 13% out of 4,590 schools in Ontario) are operating at less than 50% capacity across the province. Such circumstances have created a situation where boards are having to decide whether to close or consolidate schools, or find alternative solutions. The Ministry's decision to phase out "top-up" grants for under-utilized schools will increase the pressure on school boards in this regard.
- **Few enrolment audits are being done by the Ministry, despite significant errors noted during audits.** Over the six-year period from 2011 to 2016, enrolment was audited at only 6% of schools—3% of all elementary schools and 18% of all secondary schools—this, despite the fact that the amount of funding allocated to each school board is based to a large extent on overall student enrolment. In the last three years alone (2014–16), based on the audit files we reviewed, audits resulted in school boards' operating funding being reduced by $4.6 million due to errors by school boards in recording the enrolment of students.
- **There is no cap on the maximum individual class size for students in Grades 4 to 12.** Only classes for Grades 1 to 3 have a maximum class size restriction of 23 students, and starting in the 2017/18 school year full-day kindergarten has a maximum class size restriction of 32 students. For all other grades, school boards are restricted to an average class size by board, meaning that not all students will be benefitting from smaller class sizes. For secondary school classes, all boards have the same cap on the average class size by board, which is 22 students. However, for Grades 4 to 8, the Ministry has set different caps on the average class size by board depending on the board. Half have an average class size restriction of 24.5 and the other half have an average cap ranging from 18.5 to 26.4 students. In June 2017, the regulation on class size restrictions was amended to reflect the fact that starting in the 2021/22 school year, all boards will have an average class size restriction of 24.5 or fewer students. However, the amendment did not introduce a cap on the maximum individual class size for all grades.

This report contains 15 recommendations, consisting of 23 actions, to address our audit findings.

Overall Conclusion

The Ministry of Education (Ministry) needs to improve the effectiveness of its oversight procedures to ensure that taxpayer dollars it uses to fund school boards are used in relevant cases according to legislation, contractual agreements, or Ministry policy. The Ministry could not demonstrate that funding objectives were consistently being met or that funding was always being spent fully in accordance with its intent (for example, in the case of students who are at risk of poor academic achievement).

OVERALL MINISTRY RESPONSE

The Ministry of Education thanks the Auditor General and her team for their recommendations on how the Ministry can continue to improve education in Ontario.

Ontario's success as a leading education system is a result of the Ministry working closely with our education partners to improve student achievement, equity and the well-being of students and staff. The impact of this collaborative approach is reflected in higher student achievement and higher rates of high school graduation.

We know there is still work to be done to provide equitable outcomes for students with unique needs, for example, Indigenous learners and students with special education needs. That is why we are working closely with our education and community partners toward improving outcomes for at-risk students. The Ministry has also released a three-year Education Equity Action Plan that is intended to identify and eliminate discriminatory practices, systemic barriers and bias from Ontario schools and classrooms to support the potential for all students to succeed.

In addition, Ontario makes some improvements to the funding formula every year, in consultation with our partners and based on research and data. We are providing targeted and differentiated supports to improve teaching and learning in classrooms, schools and boards across Ontario. This is evident in approaches like our Renewed Math Strategy or investments to support new staff for special education needs. The Grants for Student Needs and the Education Program—Other provides a system of funding that recognizes the diversity of learners and the differences in communities across the province.

We will continue to use research and review and assess evidence to inform policy and funding decisions. We are also committed to considering the Auditor General's recommendations in our annual funding consultations and other working groups.

Our goal is always to make the best evidence-based decisions to support Ontario's children in reaching their full potential.

2.0 Background

2.1 Overview

The Ministry of Education (Ministry) funds 72 district school boards to provide elementary and secondary education to about two million students (as of the 2016/17 school year). There are four types of school boards and each serves all areas of the province. In total, Ontario has 31 English public boards, 29 English Catholic boards, four French public boards and eight French Catholic boards. Collectively, there are approximately 4,590 schools, 113,600 teachers and 7,300 administrators in the system.

The Ministry is responsible for developing curriculum, setting requirements for student diplomas and certificates, determining the overall funding level for school boards and how the funding will be allocated to individual boards, paying the provincial portion of funding to school boards, and ensuring that school boards comply with the requirements of the *Education Act, 1990* (Act) and its regulations.

School boards and the Ministry have different fiscal periods. School boards report expenses based on the school year, which is from September 1 to August 31. The Ministry reports its consolidated financial information based on the Province's fiscal year, which is from April 1 to March 31. For this reason, funding to school boards reported in the Province's Public Accounts does not directly agree to the audited financial statements of school boards.

The Province shares responsibility with municipalities for funding school boards. Each municipality collects from its property owners the Education Property Tax, which it remits to its local school boards. In the 2016/17 school year, the Ministry and municipalities combined provided school boards with $22.9 billion in operating funding through what is known as the Grants for Student Needs. Also, the Ministry provided an additional $212 million in operating funding to school boards through transfer payments called Education Programs—Other (EPO). These two funding streams represent about 90% of the operating funding available to school boards.

The remaining 10% is available to school boards primarily through funds generated by the schools themselves through fundraising and tuition from foreign students, and grants and fees from other provincial ministries and the federal government.

Province-wide, about 30% of the GSN funding comes from the Education Property Tax and the remaining 70% comes from the Ministry, but this can vary significantly from municipality to municipality.

The Ministry's key oversight functions with respect to funding include monitoring the financial health of Ontario's school boards; conducting enrolment audits; developing audit tools and the framework for school boards' audit committees and regional internal audit teams; and establishing reporting and accountability requirements associated with administering grants to school boards.

2.2 Funding and Financial Information

2.2.1 Grants for Student Needs

Grants for Student Needs (GSN) is a collection of several grants, many of which are made up of two or more components, described in detail each year in a regulation under the Act. In the 2016/17 school year, the GSN comprised 15 grants with 74 components; each component has its own formula for calculating the amount of funding that each school board will receive. These grants can be grouped into four general categories:

- **Funding for classrooms**—focuses on providing classroom resources, such as teachers, education assistants, textbooks and classroom supplies.
- **Funding for schools**—provides funding for school administration and the cost of maintaining and repairing school facilities.
- **Funding for specific education priorities**—provides funding to help reduce the gap in achievement results between specific groups of students and overall student results; for example, by meeting students' special-education needs, improving language proficiency in the language of instruction and providing support to Indigenous students. The Ministry refers to this as "closing the achievement gap."
- **Funding for other specific purposes**—provides funding for school board administrative costs and other activities that support education but are not related to the categories above, such as transporting students to and from school.

The GSN is divided into two types of grants that each account for about half of the GSN's total funding—foundation grants (of which there are two) and special purpose grants (of which there are 13). Foundation grants are intended to cover the basic costs of education common to all students and schools. Special purpose grants are intended to address specific needs that may vary among school boards, taking into account such factors

as demographics, school location and special education needs.

See **Figure 1** for a breakdown of the GSN by category. The percentage of allocation in each category has been consistent over the last decade.

School boards can use any unspent funding in the following year. Unspent restricted funding must be spent on the restricted purpose in the following year. According to the Ministry, although funding may not be formally restricted (as in the case for foundation grants), compliance with regulatory requirements may effectively restrict the use of that funding. For example, class size restrictions can dictate the number of teachers and hence the level of spending.

2.2.2 Transfer Payments for Education Programs—Other (EPO) Grants

Unlike the GSN, which is established by legislation annually, the funding stream called Education Programs—Other (EPO) is funded through a series of individual transfer payment agreements between the Ministry and funding recipients, including school boards and other parties.

In 2016/17, the Ministry administered 64 types of EPO grants to school boards totalling $212 million or 0.9% of total education operating funding.

2.2.3 Total Funding per Student

Provincially, the total funding per student has increased 24% over the past ten years, from $9,500 in 2007/08 to $11,800 in 2016/17. Almost all of the increase in per student funding is due to the change in salaries and benefits paid to teachers. Taking inflation into account, the increase in total funding per student has been 9%. Over the same period, enrolment has increased by only 2%.

A breakdown of the total operating funding per student provided by the Ministry and municipalities along with total enrolment over the last 10 years is presented in **Figure 2**.

For additional information on school board funding, see **Appendix 1**.

2.3 Ministry Oversight Practices

The Financial Analysis and Accountability Branch within the Ministry's Education Labour and Finance Division has primary responsibility for overseeing school boards' financial health and their use of GSN funding for operating purposes. This branch employed 35 full-time staff and incurred $5.6 million in operating costs in fiscal 2016/17. The various oversight practices used by this branch are described in **Appendix 1**.

Other Ministry divisions and related branches that provide EPO grants to school boards through transfer payment agreements are responsible for overseeing that those funds are spent in accordance with those contractual arrangements and the government's Transfer Payment Accountability Directive.

2.4 Measuring Student Performance

2.4.1 Student Performance Indicators

The main measures used by the Ministry to gauge student performance in school boards include:

- Education Quality and Accountability Office (EQAO) assessments—annual assessments of the reading, writing and math skills of Grade 3 and Grade 6 students; of the math skills students are expected to have learned by the end of Grade 9 (different versions of the test are administered for the academic and the applied math courses); and of the literacy skills of Grade 10 students, assessed through the Ontario Secondary School Literacy Test (OSSLT). There are nine assessments in total administered by an agency of the provincial government.
- Graduation Rate—calculated by the Ministry, this measures the percentage of students who graduate with an Ontario Secondary School Diploma within four years and within five years of starting Grade 9. The first Grade 9 cohort for which the Ministry began to

Figure 1: Grants for Student Needs Funding, by Category and by Type of Grant, 2016/17

Source of data: Ministry of Education

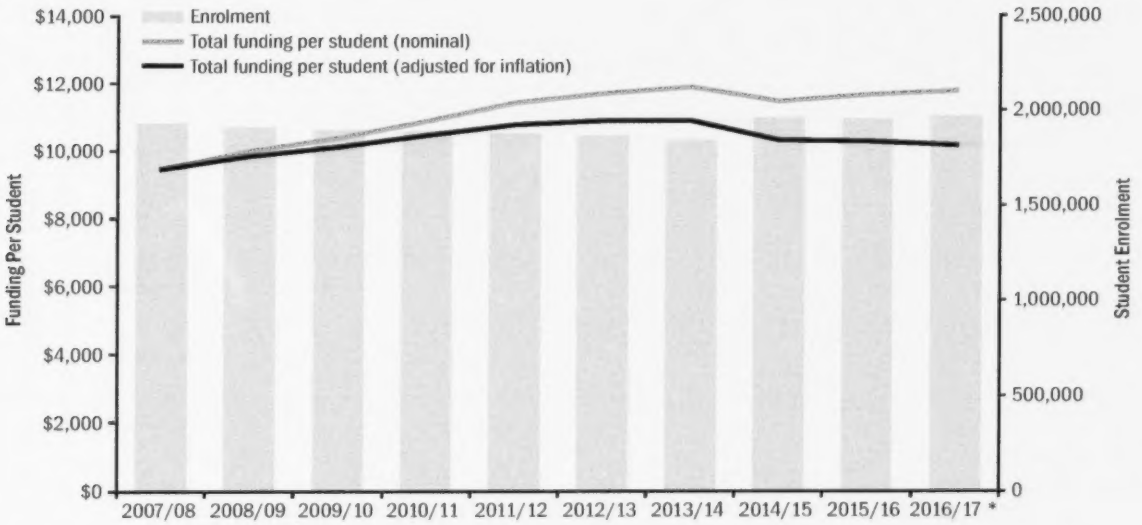
General Funding Categories	Grants for Student Needs	Grant Description	# of Grant Components	Funding Allocation for 2016/17 ($ million)	% by General Funding Category
Funding for Classrooms	Pupil Foundation Grant*	Supports the elements of classroom education common to all students, such as salaries of classroom teachers, early childhood educators, educational assistants, and other teaching staff including librarians and guidance counsellors. It also funds textbooks, classroom supplies and classroom computers.	12	10,587.8	
	Cost Adjustment and Qualifications and Experience Grant	Provides additional funding to boards for classroom staff who, because of their qualifications and experience, have average salaries above the benchmark level provided through the Pupil Foundation Grant.	6	2,019.5	
Total Funding for Classrooms			**18**	**12,607.3**	**55**
Funding for Schools	School Facility Operations and Renewal Grant	Supports the costs of operating (heating, lighting, cleaning), maintaining, and repairing school facilities.	2	2,414.0	
	School Foundation Grant*	Provides funding for principals, vice-principals and office support staff, as well as administrative supplies.	4	1,444.1	
	Geographic Circumstances Grant	Provides funding for the higher costs related to the remoteness of rural boards and schools.	3	190.7	
	Declining Enrolment Adjustment	Recognizes that it takes time for boards to adjust their cost structures to reflect declines in enrolment.	2	18.9	
Total Funding for Schools			**11**	**4,067.7**	**18**

General Funding Categories	Grants for Student Needs	Grant Description	# of Grant Components	Funding Allocation for 2016/17 ($ million)	% by General Funding Category
Funding for Specific Education Priorities	Special Education Grant	Provides funding for programs, services, and/or equipment for students with special-education needs.	6	2,786.5	
	Language Grant	Provides funding to meet the school boards' cost for language instruction, for example, English as a Second Language and French as a Second Language.	5	714.7	
	Learning Opportunities Grant	Provides funding to help students who are at greater risk of lower academic achievement.	11	531.9	
	Continuing Education and Other Programs Grant	Supports a range of programs aimed at adult learners and day-school students, including secondary students who have completed more than 34 credits and wish to continue their studies.	6	140.7	
	Indigenous Education Grant	Supports programs designed for Indigenous students, such as Native Language and Native Studies.	4	61.4	
	Safe and Accepting Schools Supplement	Funding supports the Safe Schools Strategy and provides targeted support to secondary schools in priority urban neighbourhoods.	2	47.5	
Total Funding for Specific Education Priorities			**34**	**4,282.7**	**19**
Funding for Other Specific Purposes	Student Transportation Grant	Funding to transport students to and from schools.	4	903.6	
	School Board Administration and Governance Grant	Provides funding for board administration and governance costs, including those related to board-based staff and board offices and facilities.	5	594.2	
	Debt Service	Funding to service debt provided to school boards for capital expenditures.	2	477.0	
Total Funding for Other Specific Purposes			**11**	**1,974.8**	**8**
Total			**74**	**22,932.5**	**100**

* These are classified as Foundation Grants, which are intended to cover the basic costs of education common to all students and schools. All other grants are classified as Special Purpose Grants to address specific needs.

Figure 2: Student Enrolment and Operating Funding per Student, 2007/08–2016/17

Source of data: Ministry of Education



Note: Funding includes operating funding provided by the Ministry and municipalities.

* Funding for 2016/17 based on amount estimated as of December 2016.

track board level graduation rates was the 2008/09 school year, meaning that students would have had to graduate by the end of the 2011/12 and 2012/13 school years to be included in the four-year and five-year graduation rate, respectively. The Ministry has set a provincial target for 85% of students to graduate within five years.

- Credit Accumulation by the end of Grade 10 and by the end of Grade 11—the Ministry measures the percentage of students who successfully complete 16 or more credits by the end of Grade 10 and 23 or more credits by the end of Grade 11. This is an indicator of whether students are on track to graduate with their peers.

2.5 Process for School Consolidations or Closures

School boards are responsible for making decisions about closing and consolidating (that is, merging) schools. In cases where a school board requires capital funding to support the consolidation of schools, it must submit a template business case to the Ministry. The template includes estimated construction costs based on the project scope, historical and one-year forecasted enrolment, the five-year renewal needs for the 10 schools closest to the proposed consolidation, and forecasted enrolment by grade level (primary, junior, high school) for the current situation and under the proposed solution at the expected year of project completion, four years later, and eight years later. School boards may also submit supplementary documents to the Ministry, such as initial and final staff reports, minutes of meetings, and school information profiles. The Ministry reviews the supplementary information provided by boards as part of the project review process.

In March 2015, the Ministry revised its Pupil Accommodation Review Guideline. The guideline, which was last revised in 2009, outlines the minimum requirements, such as timelines, that boards need to follow when consulting with their communities about potential school closures, and

identifies issues that need to be considered as part of the decision-making process.

3.0 Audit Objective and Scope

Our objective was to assess whether the Ministry of Education (Ministry) has effective oversight procedures in place to ensure that operating funds provided to school boards are being used by the boards in accordance with legislation, contractual agreements and Ministry policy, and are achieving the desired education outcomes.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at the Ministry agreed with the suitability of our audit objective and related criteria as listed in **Appendix 3**.

We generally focused on activities of the Ministry in the five-year period ending in 2016/17. We conducted the audit between March 1, 2017, and July 31, 2017, and obtained written representation from the Ministry that effective November 17, 2017, it has provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

We did our work primarily at the Ministry's head office in Toronto. In conducting our audit work, we reviewed applicable legislation, regulations, Ministry policies and relevant files, and interviewed staff of the Ministry. As well, we met with a representative of the Council of Senior Business Officials (an organization comprising all superintendents of business operations at all school boards) to understand issues related to how school boards are funded and how funding is used. We also spoke with the external auditors of select school boards to understand whether procedures are conducted to substantiate enrolment numbers and Education Property Tax amounts remitted by municipalities.

We researched funding models used in other jurisdictions. As well, we surveyed all 72 school boards to determine amounts spent on special purposes and whether the school boards conduct any procedures to gain assurance over enrolment numbers received from their schools. We received a 46% response rate to our survey.

We also reviewed the Ministry's summary of discussions occurring during the annual funding consultations and written comments submitted by individual stakeholders. We also reviewed the 2002 report of the Education Quality Task Force, entitled, *Investing in Public Education: Advancing the Goal of Continuous Improvement in Student Learning and Achievement*. This was the most recent review undertaken on the funding formula.

In addition, we reviewed the relevant audit reports issued by the Province's Internal Audit Division in determining the scope and extent of our audit work.

This audit on Ministry funding and oversight of school boards complements the audit we conducted on School Boards' Management of Financial and Human Resources in **Chapter 3, Section 3.12**. That report covers areas including school board use of special purpose grants, special-education services, procurement, and employee absenteeism and performance appraisals.

4.0 Detailed Audit Observations

4.1 Funding Formula May Not Be Meeting the Needs of Students

4.1.1 Comprehensive Review of the Funding Formula Is Overdue

Although the Grants for Student Needs (GSN) funding formula has had some periodic adjustments since it was first introduced in 1998, it is in need of

a comprehensive external review. Without such a review, the Ministry cannot be sure that the funds it is providing school boards are adequately allocated to meet students' needs. Nor can it have assurance that students with similar needs living in different parts of the province will receive the same amount of services and support.

Since the GSN funding formula was introduced in 1998 it underwent one comprehensive external review four years later and none since. The 2002 review, by the Education Equity Funding Task Force, was entitled, *Investing in Public Education: Advancing the Goal of Continuous Improvement in Student Learning and Achievement*. At that time, one of the key recommendations of the review was that:

> "... the Ministry of Education in consultation with school boards and other members of the education community, develop mechanisms for annually reviewing and updating benchmarks in the funding formula and for conducting a more comprehensive overall review of the funding formula every five years."

As will be explained in more detail in **Section 4.1.2**, the benchmarks are not reviewed and updated annually. Nor has there been a comprehensive overall review every five years. Instead, the original funding formula, already considerably complex when created, has simply been added to when the Ministry identifies new grant categories. Since 2013, the Ministry has undergone an annual consultation process with stakeholders to update the funding formula, but these consultations do not take the place of a fully comprehensive review.

The need for such a review has been echoed by the Minister of Education, think tanks and educators. To illustrate:

- In February 2005, moving for a second reading of the *Education Amendment Act, 2005*, the Minister of Education stated, "We're working our way toward a very transparent and very accountable funding formula, which we can't say has existed in the recent past and which will take some time yet to bring about."
- In 2009, the Canadian Centre for Policy Alternatives issued a report, entitled *No Time for Complacency: Education Funding Reality Check*, which stated, "Ontario needs a permanent, independent third-party commission to provide an ongoing assessment of the appropriate level of funding and programming Ontario requires to meet its educational objectives. A special task force or review every five to 10 years simply isn't good enough." The report cited problems with the formula under various categories, including the Ministry's failure to recognize and reflect differences in needs among students and cost drivers among school boards; and its failure to distinguish appropriately between fixed costs and costs that vary with changes in enrolment.
- In 2016, the Elementary Teachers' Federation of Ontario issued a news release "urging the... government to make good on its 2010 promise to review the education funding formula." The primary concerns noted in the news release were that:
  - the number of special-education students identified as requiring individualized plans and support has continued to increase and outpace the grants to support special education. At least 14 public boards are struggling with cuts to special education and some are laying off education assistants, who are crucial in assisting teachers to meet the needs of all students; and
  - 73% of English-language elementary schools now have ESL students compared with 43% in 2002/03, and the number is growing with the arrival of refugees from war-torn nations, such as Syria. Provincial grants for ESL students are inadequate and overall shortfalls in the funding formula have led school boards to use their second language grants for other purposes.
- In a written submission during the 2016/17 education funding consultation process, the Ontario Public School Boards' Association

noted that it recognizes that in recent years the Ministry has reviewed and updated several components of the funding model, such as board administration funding and special education funding, but continues to advocate for a full review of the current funding model involving consultation with all stakeholders to ensure that the model meets the needs of all students in the province.

As mentioned in **Section 2.2.3**, over the last 10 years Ministry funding to school boards has increased at a faster rate than the increase in student enrolment. That is, using constant dollars, funding has increased 9% compared to a 2% increase in enrolment. Therefore, it is unclear that the sector is underfunded. However, it is important to evaluate how funds are allocated among school boards.

We asked the Ministry why it has not undertaken a comprehensive external review of the funding formula, including a review of all grants, since 2002, even though its own task force originally recommended reviews every five years. The Ministry told us that the decision to not conduct an extensive review of the funding formula is a policy decision made by Cabinet. Further, the Ministry's view is that "over the years, new reforms have been introduced that better support student achievement and well-being, the implementation of new policies and programs, and updates to the model to better align with board cost structures and drive efficiencies." A review can inform the decision making on how funds are allocated among school boards.

4.1.2 Benchmarks Used in the Funding Formula Often Out of Date

Some cost benchmarks used in the funding formula to determine how much GSN funding each school board receives are often not regularly updated, meaning that school boards may not be receiving the level of funding for particular purposes that was originally intended. Moreover, the Ministry uses out-of-date census data—often more than ten years old—to calculate significant amounts of funding, even though the relevant demographics may have changed.

In calculating the amount of funding each school board will receive in each of the individual grants and grant components that make up the overall GSN, the Ministry has established cost benchmarks. Benchmarks have two parts: benchmark factors and benchmark costs.

- *Benchmark factors* are the attributes or activities of a school board that trigger costs, such as the intended number of staff per 1,000 students to calculate teacher funding, or the number of eligible pupils who entered Canada in the previous five years, used in the English as a Second Language allocation in the Language Grant. Benchmark factors also take into account regulated standards, such as class size restrictions.
- *Benchmark costs* are the dollar amount assigned to each factor intended to represent a standard or average cost for a particular factor.

As school board costs change over time due to reasons, such as inflation or increases in the costs of goods and services beyond inflation, benchmark factors and costs may not reflect current circumstances unless they are regularly updated to reflect changes in the actual cost of goods and services.

All benchmarks associated with negotiated labour costs are updated regularly as part of contractual negotiations; however, many others based on socio-economic and demographic factors are not regularly updated. For example, we noted that the benchmark for computer hardware, which forms part of the Pupil Foundation Grant, has not been updated since 2009/10, at which time it was reduced from $46.46 to $34.52 per elementary pupil and from $60.60 to $45.03 per secondary pupil.

Ministry Using Census Data from 2006 to Assess School Boards' Needs in 2016/17

We also found that in allocating funding for special purpose grants, the Ministry is using census data from Statistics Canada that is more than 10 years old. Given that demographics in Ontario may have significantly changed since 2006, using this data may not fairly and equitably reflect how funding should be distributed so that students who need it most are receiving it.

Census data from Statistics Canada was used in 2016/17 to allocate $1.146 billion for portions of special purpose grants that are intended to help close the achievement gaps for specific groups of students; these included portions of the Special Education Grant, Language Grant, Indigenous Education Grant, Learning Opportunities Grant, the Safe and Accepting School Supplement, and the Geographic Circumstances Grant.

The Ministry uses census data to estimate the relative need among boards, in order to distribute the funding to school boards that need it most. In 2016/17, only 7%, or $83.3 million, of the special purpose grant funding that is determined using census data was based on information provided through the 2011 Census—the latest information available at the time the allocations were determined. A further 10%, or $111.7 million, is being phased in by 2018/19 using 2011 census data. The remaining 83%, or $951 million, was determined using 2006 census data, despite more current data being available.

Census data is collected every five years by Statistics Canada. In 2011, Statistics Canada information that was previously collected by the mandatory long-form census questionnaire was collected as part of a voluntary National Household Survey (NHS). The Ministry told us that it did not use the more up-to-date 2011 census data because the move to a voluntary survey raised concerns with data quality.

However, despite this explanation, five years after the 2011 Census was taken, the Ministry began using the 2011 census data to calculate certain allocations under the Special Education Grant, the Indigenous Grant and the Language Grant for the 2016/17 GSN allocation. Changes resulting from the use of the 2011 census data are being phased in over three years to minimize fluctuations in funding.

Statistics Canada returned to using the mandatory long-form census in 2016; results are being released throughout 2017. This will provide the Ministry an opportunity to use even more current census data.

RECOMMENDATION 1

To ensure that funds are allocated in a manner that supports school boards in providing a high standard of education to all students, we recommend the Ministry of Education:

- conduct a comprehensive external review of the funding formula, including all grant components and benchmarks, as recommended by the Education Equity Funding Task Force in 2002;
- regularly review the formula and update all benchmarks to reflect the province's changing demographics and socio-economic conditions; and
- use the more current census data available when determining allocations for grants.

MINISTRY RESPONSE

Several new committees are planned for this school year to discuss various parts of the Grants for Student Needs (GSN) in addition to the annual engagements currently under way.

The Ministry also agrees to regularly review Statistics Canada data to ensure any appropriate updates are reflected in the allocations associated with socio-economic and demographic factors, as well as engage in targeted external reviews of the factors that determine key inputs of the funding formula as needed.

Reforms have been made in the past to the GSN funding formula. Some of these

changes include the introduction of full-day kindergarten into the Pupil Foundation Grant; adjustments to a number of grants to reflect the School Board Efficiencies and Modernization initiative; a revised School Board Administration and Governance Grant; a new funding model within the Special Education Grant; the creation of a Student Achievement envelope in the Learning Opportunities Grant; and the introduction of the 34th Credit Threshold into the Continuing Education and Other Programs Grant.

In total, 87% of the grants in the GSN have been reformed since 2012/13, to varying degrees of significance.

4.1.3 Grants for Specific Education Priorities Not Always Allocated According to Actual Student Needs

We reviewed the Ministry's GSN funding formula to determine whether the basis of particular grant components was reasonable, given the objectives of providing the funding or the specific group of students the funding was intended to serve. We found that some grants are allocated in ways that do not reflect the number of students per school board that have the particular need the grant is intended to address.

Allocation of the Special Education Grant, for example, is heavily weighted toward total student enrolment, resulting in boards receiving more or less than they would have if the Ministry allocated funding according to the actual number of students receiving special-education services. Allocation of the Learning Opportunities Grant is heavily weighted on 2006 socio-economic data rather than numbers of students actually at greater risk of poor academic achievement.

Special Education Grant

The Special Education Grant is intended for students who need special-education programs and services. However, we found that half of special-education funding is allocated based on a school board's average daily enrolment of all its students, as opposed to only the number of students who are receiving special-education programs and services. Under the current allocation method, boards that have a high number of students who need these programs and services but lower total enrolment levels compared with other boards would be penalized, while boards that have a low number of students that receive these services but high total enrolment would get more funding that they do not necessarily need.

Many school boards that participated in the 2016/17 annual education funding consultation also felt that using a board's total enrolment might not be the best approach to allocate special-education funding because, they noted, special-education needs are generally growing faster than total enrolment. We found this to be the case: over the 10-year period ending 2015/16, total student enrolment decreased 5% provincially while special-education enrolment increased by 21%.

For the portion of funding based on total enrolment, we calculated the amount each board would have received if it was funded instead on the actual number of special-education students it reported, and compared this amount with the funding provided by the Ministry. We found that if the Ministry had allocated the funding based on the actual number of students receiving special-education programs or services, $111 million would have been allocated differently across the boards. Based on our calculation, 39 boards would have received an average of $2.9 million more in funding, and 33 boards would have received an average of $3.4 million less. One board would have received $10.4 million more, while another board would have received $16.1 million less.

The Learning Opportunities Grant

The Learning Opportunities Grant (LOG) provides school boards funding for a range of programs intended to help students who are at greater risk of

poor academic achievement. Although the grant is intended to help students who have a higher risk of academic difficulty, we found that it is not allocated to school boards based on the actual number of students at risk. Instead, the majority of funding is based primarily on 2006 socio-economic census data identifying numbers of students who come from low-income households, have recently immigrated to Canada, have a single parent, or whose parents have less than a high school diploma. The Ministry recognizes that the total number of students predicted by the census data to be at risk will not all require additional resources.

The Ministry does not have a standard definition for "risk," leaving this to the school boards to determine. Risk could be based on a number of academic, social or emotional factors, or a combination of these. Determining which students are at risk is based on the professional judgment of schools' student success teams; some students are deemed to be at risk only for a relatively short period of time, while others may have several risk factors and remain at risk for longer periods.

The Ministry does have data on secondary school students considered at risk of poor academic achievement because school boards report this information to the Ministry three times each year. However, the Ministry told us it does not use this data to allocate the LOG funding to school boards because the criteria for determining students at risk varies from school board to school board, and could even be different from school to school.

In our 2011 audit of student success initiatives, we recommended that the Ministry and the school boards establish a common definition for reporting Grade 9 and Grade 10 students considered at risk of not graduating. At the time of our follow-up of the recommendations from this audit, the Ministry had updated its guidelines to provide more consistency in identifying students at risk, but had not set a common definition.

Going back fifteen years, in its 2002 report, the independent task force that reviewed the funding formula recommended:

- The Ministry should review the current allocation model for the demographic component of the LOG to ensure that the distribution of the funds is fair and equitable; and
- The Ministry require school boards that receive funds through the LOG to report publicly on how the expenditures of these funds is contributing to continuous improvement in student achievement and to the reduction of the performance gap between high and low achievers in their schools, while maintaining high standards.

At the time of our audit, the Ministry had taken little action to address these recommendations.

As recently as the 2016/17 annual education funding consultations with school boards and other stakeholders, the Ministry asked for suggestions on sources of data that could be used to allocate the LOG. Stakeholders suggested additional types of data to help identify need and to determine where more resources are needed. Suggestions included local health and mental health information, such as birth rates, teenage pregnancies, drug use, addiction, student and parent mental health, access to urgent care, Children's Aid Society referrals, and data used by police.

Stakeholders also noted that the existing funding formula has a 25% weighting factor for students who recently immigrated to Canada. There were concerns that those students, while they may need language resources, are actually highly motivated to perform well. Conversely, northern boards typically have fewer immigrants but do have many Indigenous students, who are often high-risk.

In 2014/15, the Ministry announced its intention to review the LOG in order to determine whether stronger accountability mechanisms are required to ensure that funding is meeting provincial policy objectives. At the time of our audit, the Ministry could not demonstrate to us that it had undertaken any significant work in this area.

Without incorporating into the allocations the type of information suggested during the consultations, or by not basing funding on the actual

number of students identified as being at risk, it is difficult to determine whether the funding provided to school boards is in fact providing the appropriate level of support to students across the province who are actually at risk, and meeting one of the primary objectives of the funding formula—that it is equitable.

RECOMMENDATION 2

In order to provide funding in a more equitable manner and ensure the funding meets the actual needs it is intended to address, we recommend the Ministry of Education assess whether the funding of grants intended to serve the needs of a specific group of students or for a specific purpose is achieving that purpose.

MINISTRY RESPONSE

The Ministry will continue to assess the design of the grants in relation to their purpose, and make improvements as appropriate. In the funding engagements to inform the 2018/19 school year, the Ministry is seeking feedback on a range of programs to help students who are at a greater risk of poor academic achievement to ensure funding is responsive to school boards' needs.

The Ministry continues to review and refine the Special Education Grant. The Ministry has introduced a revised need-based component that was fully implemented in 2017/18. This component is derived in part from board-reported data, and addresses a board's likelihood of having students with special education needs, and ability to meet those needs.

4.2 Ministry Does Not Ensure Funding for Specific Education Priorities Is Spent as Intended

When the Ministry provides funding to school boards for specific purposes, it does not ensure that the total amount is actually spent as intended. There are two reasons for this.

First, the Ministry gives school boards considerable discretion in how they spend the funding they receive following the principle that school boards are each governed by an elected board of trustees to make autonomous decisions based on local needs and priorities.

Second, the Ministry requires school boards to report back on their spending in a way that does not match up with how the Ministry allocated the funding, thus making it impossible for the Ministry to know how much money was spent for the intended purposes. We further found that the Ministry does not validate or audit the amount of expenses reported for restricted purposes by school boards to verify their accuracy.

4.2.1 Only 35% of Total $10.9 Billion in 2016/17 Special Purpose Grants Must Be Spent on Specified Purposes

In 2016/17, $10.9 billion—almost half of the funding provided to school boards through the GSN—is categorized as being for Special Purpose Grants. However, the majority of grants allocated for a specific purpose or a specific group of students is being used at the discretion of school boards, creating a potential disconnect between the Ministry's stated purposes for providing the funding and how school boards choose to spend it. **Appendix 2** highlights amounts for which funding is restricted under each grant.

About 20% ($2.2 billion) of the Special Purpose Grants can be considered top-ups to the foundation grants because they are intended to recognize the additional costs or pressures facing school boards. These include:

- Geographic Circumstances Grant—helps cover the costs of operating small schools in remote areas;
- Declining Enrolment Grant—relieves pressure of adjusting to reduced allocations where enrolment is declining; and
- Teacher Qualification and Experience Grant—addresses situations where the cost of

teachers' salaries is higher than the average amount provided to school boards through the Pupil Foundation Grant.

However, the remaining 80% (or $8.7 billion) of the special purpose grant funding is allocated based on a specific purpose (for example, student transportation) or for a specific group of students (for example, students with special needs). But not all this special purpose funding is restricted. That is, although the allocations are described as being for specific purposes or groups of students, the Ministry allows school boards to spend the money as they choose.

Only one grant, the Special Education Grant, is restricted in its entirety under legislation. In other words, school boards are required to spend allocations received under this grant only for purposes specific to special education.

Some special purpose grants have partial restrictions in that some individual components are restricted while others are not. For example, 34% of the Learning Opportunity Grant and 19% of the grant for Indigenous Education must be spent for purposes related to those grants while the remainder of the allocations can be spent for any purpose the school board chooses.

For many of the special purpose grants, no restrictions at all are placed on how school boards spend the funding. It is entirely at the school boards' discretion how they spend their allocations under, for example, the Language Grant (intended for English- and French-language learners), the Student Transportation Grant, and the Continuing Education and Other Programs Grant, which is designed to support programs aimed at adult learners.

The Ministry told us that this is acceptable because it is the responsibility of school boards to allocate these funds for staffing and program delivery according to their local policies while respecting the Act and any relevant regulations and policies. The Ministry indicated that school boards' accountability to it must be balanced against the need for flexibility to address local conditions.

Our concern, however, is that this can lead to inequity in services provided to students depending on where they live in the province. For example, a student requiring ESL support attending a school in one district might receive less support than a student with the same needs living in a different district simply because his or her school board has chosen to allocate some of its Language Grant allocation for other purposes. We further discuss the inequity in ESL funding in our report on School Boards' Management of Financial and Human Resources in **Chapter 3, Section 3.12.**

4.2.2 School Boards' Reporting of Spending of Special Purpose Grants Does Not Allow the Ministry to Assess Reasonableness of Allocations

The Ministry cannot track whether school boards have spent funds from special purpose grants according to the intended purpose of these grants (with the exception of amounts restricted in use) because it requires the school boards to report on their expenses using categories that do not match the original allocations. Rather than report expenses back to the Ministry in the same manner in which they were allocated, school boards are required to report all expenses to the Ministry under five main expense headings: instruction, administration, pupil transportation, pupil accommodation, and "other."

This means that where funding was provided for a specific purpose, such as to support ESL students or Indigenous students, its use is reported back to the Ministry split between the defined categories noted above rather than for the purpose for which it was provided.

Further, in reporting expenses to the Ministry, school boards report the total amount of expense incurred in each of the defined categories from all sources of funding, not only what was provided by the Ministry. The amounts reported by the school boards also include amortization of past expenses, as required by accounting standards. The combined

effect is that the expense per student (as discussed in **Section 4.3**) is much higher than the amount of funding allocated per student (as noted in **Section 2.2.3**).

The Ministry informed us that requiring school boards to report expenditures based on the source of funding would not be practical. However, requiring reporting in the way it does prevents the Ministry from understanding whether its funding allocations, particularly special purpose grants, reflect the actual spending needs of school boards or whether boards have different priorities in spending these funds.

The exception to this is funding for special education and other restricted funds, where school boards are required to report their actual expenses to the Ministry. However, even in the case of restricted funds, the Ministry does not compare the funding allocated for these restricted amounts to expenses reported by school boards to determine the reasonableness of the funding provided.

We compared school boards' actual expenditures submitted to the Ministry to allocated funding for the 2015/16 school year for all restricted operating grants and found that, for many of these grants, there was a substantial difference between what boards were allocated and what they actually spent. See **Figure 3** for percentages of boards that spent at least $100,000 more or less than allocated for restricted funds. The more significant differences included:

- Almost 80% of school boards spent at least $100,000 more than was allocated to them by the Ministry for special education, ranging from $108,000 to $81 million for those boards that overspent. Of those boards, nine overspent by at least $5 million. Fourteen percent of school boards spent at least $100,000 more than provided on special equipment for students with special education needs. Three of these boards overspent by more than $500,000. The amount for special equipment is a restricted component within the Special Education Grant. Although boards can carry forward unspent amounts to future years, we noted that 59% of the boards that spent more than allocated in 2015/16 also spent more than allocated in the prior year.
- About three-quarters of school boards spent at least $100,000 less than the Ministry allocated to them through the School Renewal Allocation, ranging from $105,000 to $13.9 million less than allocated. Two boards spent at least $10 million less than what they

Figure 3: Percentage of Boards that Spent at Least $100,000 More or Less than Amount Allocated for Restricted Funds, 2015/16

Source of data: Ministry of Education

	Total Restricted Amount Allocated for 2015/16	Boards that Spent More than Allocated Amount by $100,000 or More			Boards that Spent Less than Allocated Amount by $100,000 or More[1]		
Restricted Funding	($ million)	#	(%)	Range ($)	#	(%)	Range ($)
Special Education	2,642	57	79	108,000–81 million	3	4	146,000–873,500
Special Education Equipment	71	10	14	125,600–1.5 million	23	32	100,700–2.1 million
School Renewal	365	13	18	172,800–1.1 million	53	74	105,000–13.9 million
Programs for Students at Risk[2]	141	13	18	125,900–614,000	5	7	113,700–1.1 million

1. School boards are required to spend the funding for the restricted purpose in future years.
2. Relates to a portion of funding restricted under the Learning Opportunities Grant for six specific programs to help students who are at greater risk of poor academic achievement.

were allocated. This allocation supports the costs of repairing school facilities. According to the Ministry, the reason a large number of school boards underspent this funding was because the Ministry allocated an additional $40 million for school repairs and maintenance to school boards as the end of the school year approached. However, even without this additional funding at year end, school boards would still have spent $43 million less than what they were allocated in this area. We would expect school boards to be spending all of this funding, as the latest assessment of the physical conditions of schools in the province identified $15.2 billion in needed repairs by 2020.

- Eighteen percent of school boards spent at least $100,000 more than they were allocated in the restricted portion of the Learning Opportunities Grant (LOG), while 7% spent at least $100,000 less. However, when we surveyed school boards on their use of the entire amount of funding provided through the LOG, of which two-thirds is unrestricted, 71% of respondents told us that they spent at least 10% less than they were allocated for students at risk of poor academic achievement.

The Ministry does not follow up with school boards to determine why variances exist. Such significant discrepancies between the Ministry's assessment of the school boards' needs—as determined under the funding formula—and the school boards' actual expenditures are a further indicator of the need for a comprehensive review by the Ministry of its funding formula.

4.2.3 Ministry Not Validating Reported Expenses for Restricted Purposes

For some restricted grants, the Ministry requires the school boards to report considerably detailed financial information, yet it does not validate or audit these expenses to verify the accuracy of the amounts reported for the restricted purpose or that they were used for the restricted purpose for which they were intended.

The Program Implementation Branch, for example, receives information on the funding allocated for the Specialist High Skills Major program—a restricted fund under the Learning Opportunities Grant—by requiring boards to report financial information to the Ministry three times a year. Boards must submit an initial report in November that outlines the proposed expenses, an interim report in February of the actual expenses incurred during the first semester, and a final report in July of the actual total expenses according to six specific categories, such as capital equipment, teacher training and partnership development.

Nevertheless, we confirmed with the Ministry division that oversees all financial reporting, as well as individual program areas, that it does not validate or audit these expenses to verify that they were used for the restricted purpose for which they were intended.

Some funding is based on claims submitted by school boards. Such is the case for funding to purchase special-education equipment, such as hearing and vision support equipment, personal care support equipment and sensory support equipment. Funding for special-education equipment (both claims based and formula based) amounted to $104.4 million in 2016/17. We noted that the Ministry reviews the listing of claims submitted by school boards to determine whether the claims reflect allowable items, but it does not verify the existence and/or use of the equipment. According to Ministry guidelines for such claims, the Ministry may review documentation and conduct classroom, school or board visits to verify the existence and use of the equipment. We confirmed with Ministry staff that they had not conducted any of these verification procedures for at least the last five years.

Further, although school boards submit audited financial statements each year to the Ministry, the Ministry cannot obtain assurance that school boards used restricted funds for the required purposes. This is because these financial

statements are not prepared using fund accounting (that is, grouping expenses by distinct function or purpose), and do not include a more detailed breakdown of expense information in a note to the financial statements.

RECOMMENDATION 3

In order for the Ministry of Education to provide funding in proportion to a school board's need, we recommend it:

- determine to what extent school boards are spending funds for specific education priorities (such as supports for ESL students and Indigenous students) on those specific purposes, and where it finds significant discrepancies, follow up with school boards to understand the reason for the discrepancies and better align funding with actual needs; and
- design and conduct validation procedures to verify the use of restricted funds.

MINISTRY RESPONSE

The Ministry agrees some funds should be restricted for specific purposes, and agrees it should continue to review and assess whether these grants meet the needs of students. Students, schools and school boards across the province are not uniform. Each has unique circumstances, different geography, unique student compositions and needs and different local policies and priorities.

The Ministry will continue to assess and review the need for validation procedures to ensure the use of funds, reporting and procedures of school boards is reasonable.

4.2.4 High Administration Costs Required to Review a Small Portion of School Board Funding

The Ministry devotes twice as many resources to administer less than 1% of its total funding allocated to school boards than it does to administer the remaining 99%.

Ministry funding for Education Programs—Other (EPO) grants is made through transfer payments; school boards receiving this funding are to abide by the requirements set out in the relevant transfer payment agreement. This generally includes providing the responsible Ministry branch with an expenditure report and reporting regarding the use of funds.

For operational funding, the Grants for Student Needs (GSN) is administered by one branch, whereas EPO funding is administered by 14 branches. The Ministry estimated that 8.9 full-time equivalent (FTE) staff are required to administer the GSN, whereas 17.9 FTE staff are required to administer EPO transfer payments. Therefore, about twice the amount of resources are used to administer EPO transfer payments than GSN funding, yet in 2015/16, EPO grants accounted for less than 1% of total Ministry funding allocated to school boards.

Further, the Ministry identified issues with administering EPO grants in its business plan for transforming the management of EPO grants. Specifically, the Ministry noted that the various branches or divisions that oversee individual transfer payment programs do not always co-ordinate with each other, resulting in different branches requesting the same or similar data from school boards when they are following up on incomplete information received. This wastes administrative time at the school boards and creates duplicated efforts at the Ministry.

In November 2015, the Ministry began a multi-year project to transform the financial administration, contract management, and reporting process for transfer payments through EPO grants. By 2019—within four years of the start of the project)—the Ministry expects to establish a single process for administering all EPO grants, including integrating reports coming back to the Ministry's various branches from school boards, contract management and funding management.

4.2.5 Ministry Funding through Transfer-Payment Agreements Not Temporary as Intended

According to the Ministry, the reason it provides some funding to school boards through transfer payment agreements (EPO funding) is to allow for targeted investments and flexibility in implementing new or time-limited programs and initiatives, or initiatives announced mid-year. Funding in this way allows the Ministry to pilot a program or provide temporary funding for initiatives without the need to adjust legislation, since the GSN is established by legislation annually.

However, we noted many instances in which EPO grant programs had been funded through transfer payments over a long term. We found that, during the seven-year period from 2009/10 to 2015/16, which is as far back as the Ministry had available data, the same 18 EPO grant programs had been funded through transfer payments for the entire period. Total funding for these grants over the seven years amounted to $483 million. Examples of EPO grant programs that have been in place for at least seven years include:

- Autism Supports and Training—all boards receive funding to support training on Applied Behaviour Analysis instructional methods, for teachers and other educators working with students with Autism Spectrum Disorder; and
- School Support Initiative—focuses on building principals' leadership capacity.

There is no clear reason why programs such as these should be funded through transfer payments year after year rather than being incorporated into the GSN, given that funding through transfer payments is significantly more expensive to administer than funding through the GSN.

RECOMMENDATION 4

To reduce the overall administrative burden on both the Ministry of Education (Ministry) and school boards, we recommend that the Ministry:

- regularly review grant programs funded under Education Program—Other (EPO), and where program funding is expected to continue beyond the short term, incorporate the funding into the Grants for Student Needs; and
- complete the project to transform the financial administration, contract management, and reporting process for funding considered necessary by way of transfer payments through EPO grants.

MINISTRY RESPONSE

The Ministry will continue to evaluate opportunities to streamline and strategically bundle additional EPO programs into the GSN.

The Ministry recognizes the value in continuing to improve the EPO transfer payment management process and increase program efficiency and effectiveness. The Ministry has undertaken, and will continue to evolve, various EPO improvement initiatives to enhance accountability while minimizing administrative burdens for school boards and the Ministry.

4.3 Ministry Does Not Know Whether Additional Funding for Some Students Is Achieving Intended Results

Although the Ministry allocated significantly more money per student to some school boards rather than others, it does not know whether this additional funding is achieving the intended results as described in **Figure 1** for each of the Grants for Student Needs.

In the 2015/16 school year, the provincial cost per student was $12,500. This varied from a low of $11,100 per student at a mainly urban school board primarily serving a densely populated area, to $27,800 per student at a school board in Northern Ontario.

The Ministry has no way of knowing how and to what extent the higher funding it provides to serve the needs of students facing challenging learning conditions has benefited them. We do know that overall academic achievement in rural Northern Ontario is lower than elsewhere in the province, even though expenditures are highest there. Given this, we would expect the Ministry to analyze what impact those grants designed to level the playing field are actually having on student success, and to use that information to make the grants more effective.

4.3.1 Trend in Students' Performance Results is Positive, with Exception of Mathematics

In the five years ending 2015/16, the trend in performance results for student achievement has generally been positive, except in the areas of mathematics and Grade 3 writing, as shown in **Figure 4**.

We reviewed past math EQAO results to determine how long students have been performing below the provincial standard. We noted that students have been performing below the standard in Grades 3 and 6 math and Grade 9 applied math since at least 2008/09 (see **Figure 5**). However, the Ministry has not acted quickly enough to bring

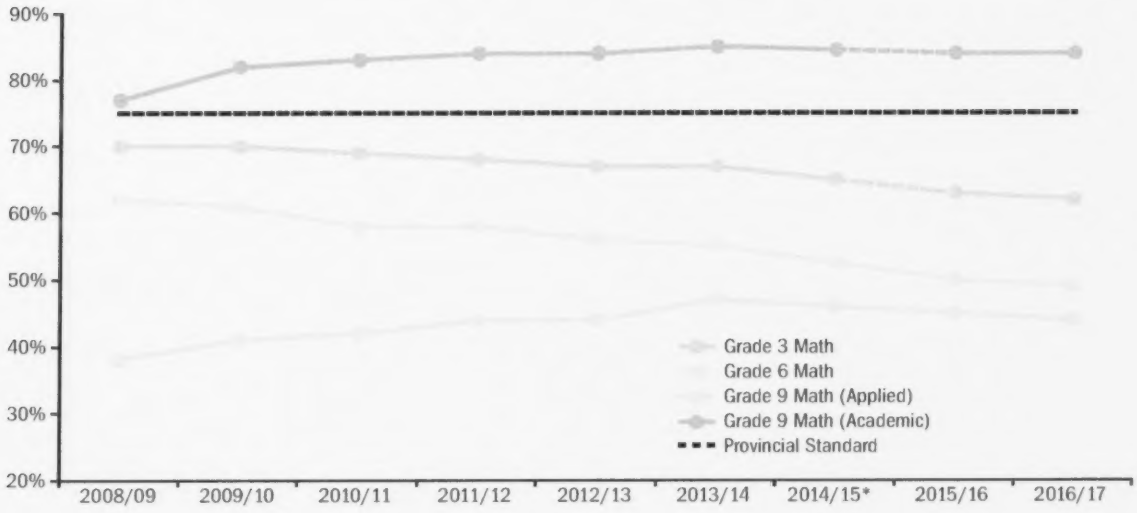
Figure 4: Student Achievement Results for All Students for Five Years, 2011/12–2015/16
Source of data: Ministry of Education, and the Education Quality and Accountability Office (EQAO)

	Student Achievement Results (%)						
Performance Indicator	Target	2011/12	2012/13	2013/14	2014/15[1]	2015/16	Change over Five Years
EQAO Results[2]							
Grade 3 Reading	75	66	68	70	n/a	72	6
Grade 3 Writing	75	76	77	78	n/a	74	(2)
Grade 3 Math	75	68	67	67	n/a	63	(5)
Grade 6 Reading	75	75	77	79	n/a	81	6
Grade 6 Writing	75	74	76	78	n/a	80	6
Grade 6 Math	75	58	57	54	n/a	50	(8)
Grade 9 Academic Math	75	84	84	85	n/a	83	(1)
Grade 9 Applied Math	75	44	44	47	n/a	45	1
Ontario Secondary School Literacy Test[3]	75	76	76	77	77	76	0
Graduation Rate[4]							
4-Year	n/a	75	76	78	80	n/a	n/a
5-Year	85	n/a	83	84	86	86	n/a
Credit Accumulation[5]							
Grade 10	n/a	76	78	78	79	79	3
Grade 11	n/a	78	80	81	81	82	4

1. Due to labour negotiations taking place during the 2014/15 school year, English public school boards did not participate in the EQAO testing; therefore, provincial data for 2014/2015 is unavailable.
2. EQAO results measure percentage of students to achieve a level 3 or 4—equivalent to a B grade or better.
3. OSSLT results for students to achieve provincial standard have been combined for first-time eligible and previously eligible writers.
4. Graduation rates are based on the rates of the four cohorts of students to begin Grade 9 from 2008/09 to 2011/12, graduating between 2011/12 and 2014/15 for the four-year rate and 2012/13 and 2015/16 for the five-year rate.
5. Percentage of students who successfully complete 16 or more credits by the end of Grade 10 and 23 or more credits by the end of Grade 11.

Figure 5: EQAO Math Results, 2008/09–2016/17

Source of data: Education Quality and Accountability Office (EQAO)



* No EQAO testing was performed in 2014/15.

about improvement in math results. In fact, the elementary level math results have gotten worse.

To address the performance results in math, the Ministry informed us that in November 2014, it endeavoured to understand the root cause of the issue by inviting over 100 people representing stakeholders, such as academics, curriculum leads, directors of education, school administrators and teachers, to submit hypotheses with supporting evidence of the causes contributing to the decline in math achievement. The Ministry informed us it received 44 submissions in response to the invitation.

The main root causes brought forward through the submissions included the need for educators to increase their knowledge of the mathematics curriculum, related pedagogy (effective teaching strategies), and effective assessment and evaluation practices.

This process led to the development of the Ministry's 2015 Mathematics Action Plan, which outlines strategies around seven key principles: a school board focus on mathematics; co-ordination and strengthening of math leadership; building an understanding of effective math instruction; supporting collaborative professional learning in math; designing a responsive math learning environment; providing assessment and evaluation in math that supports student learning; and facilitating access to math learning resources.

Starting in September 2016, the Ministry announced $60 million to help support students achieve better results in math. Key elements of the strategy include:

- 60 minutes each day dedicated to teaching math in Grades 1 to 8;
- up to three math lead teachers in all elementary schools;
- coaching for principals of select secondary schools to lead improvement;
- support for learning at home through parent resources;
- better access to online math resources and supports;
- math support for Grades 6 to 9 outside of the school day; and

- opportunities for educators to deepen their knowledge, including a dedicated math Professional Development Day.

Further to this issue, we noted that elementary schools have single-subject teachers for certain subjects, including French, physical education and music, but generally not mathematics. A teacher who is specialized in mathematics should be knowledgeable on the curriculum and on effective teaching strategies.

RECOMMENDATION 5

In order to improve students' performance in mathematics, we recommend that the Ministry of Education:

- assess the effectiveness of its 2016 math strategy and take corrective action where little or no improvement is noted; and
- assess the costs and educational benefits of having elementary school students taught mathematics by a teacher with math qualifications.

MINISTRY RESPONSE

The Ministry has contracted with external consultants to evaluate the design, implementation, process and impact of the Renewed Mathematics Strategy.

The Ministry is committed to continuing to assess the costs and educational benefits of having elementary students taught mathematics by a teacher with math qualifications.

In Ontario, educators have the opportunity to obtain Additional Qualifications (in mathematics and in other subjects). Since spring 2014, approximately 9,000 teachers and other school staff have received a subsidy from the Ministry for successfully completing a Math Additional Qualification, Math Additional Basic Qualification or pre-requisite undergraduate course. The Renewed Mathematics Strategy, which launched in fall 2016, provided newly designed subsidies that had also been provided to principals and vice-principals for successfully completing a Math Additional Qualification course alongside teachers from their school as a team.

4.3.2 Ministry Does Not Analyze Expense Variations or Unit Costs between School Boards

The Ministry does not compare and analyze expenditures of school boards on a per-unit basis, such as per student or per school, as appropriate. Doing so would aid it in understanding where school boards are feeling financial pressures and areas where the funding, as calculated by the formula, does not meet the needs of school boards.

The Ministry does prepare a summary on each school board that includes information such as trends in student achievement results (e.g., EQAO results), class size, staffing, in-year surplus/deficit and accumulated surplus. In addition, the document summarizes the variance between the number of teachers the Ministry funds and the actual number of teachers the school board employs. It also summarizes historical spending trends in the areas of classroom teachers, supply teachers, textbooks and supplies. In some cases, information is compared with a provincial average, but the Ministry does not compare one board with another—even if boards share similar attributes, such as operating in the same geographic area (e.g., a public and a Catholic board serving the same district), or serving the same type of demographics (e.g., boards serving primarily rural areas). The Ministry informed us that these individual board summaries are prepared to provide a snapshot of the financial situation for each school board.

Ministry senior management stated that comparing the cost per student ignores factors that affect both how a board must structure its costs and the performance of students. This includes demographic and geographic circumstances, such as being in a more remote area or in a large urban centre, and the negotiated teacher salaries between individual boards and regions.

The Ministry also noted that regional circumstances and socio-economic factors affect student performance and the spending of individual school boards reflects this. For example, the EQAO measures the quality of the delivery of the curriculum, but spending is also necessary for student well-being and other much broader outcomes. However, the funding formula allocates grants that are intended to address these factors.

When we analyzed school boards' expenses for the 2015/16 school year, we noted that the total cost per student was 5% higher on average for Catholic boards compared with public boards, and 35% higher on average for French-language boards compared with English-language boards.

According to the Ministry, French-language school boards have higher costs because they typically cover a larger geographic area (that is, 12 French-language school boards cover the same geographic area as 60 English-language school boards) and have fewer schools in each board. This difference will increase in 2017/18, as the Ministry adjusted the funding formula to provide more funding to French-language boards through the school foundation grant.

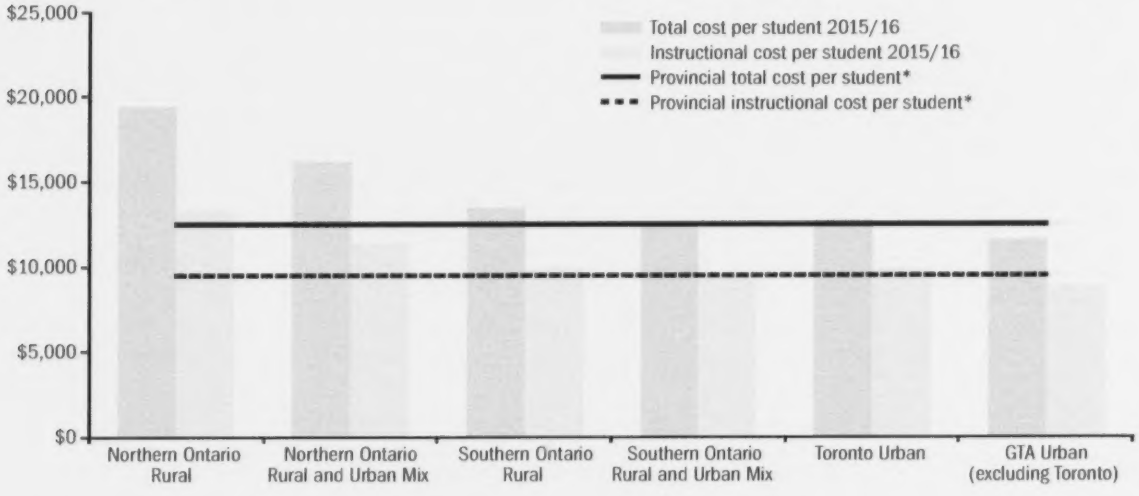
The variations in unit cost were more evident when compared regionally. For example, the five-year (2011/12 to 2015/16) average total expenses per student ranged from about $11,400 in the Greater Toronto Area, excluding Toronto, to about $19,500 in rural Northern Ontario. We also analyzed instructional costs separate from administrative and transportation costs—given that northern rural areas may have higher administrative and transportation costs—but found that similar regional variations existed. Refer to **Figure 6** for the 2015/16 average expenses per student by region.

We looked at the five-year average unit costs in the Ministry's five overarching expense categories—instruction, administration, transportation, pupil accommodation, and other —and noted that northern regions had the highest per-unit costs in all expense categories except accommodation, as illustrated in **Figure 7**.

However, when we analyzed the five-year average costs in the five expense categories of boards within each region, we noted significant variances in the per-pupil or per-school cost between boards even when in the same region of the province (see **Figure 8**).

Figure 6: Regional Average Cost per Student to School Boards, 2015/16

Source of data: Ministry of Education



* The difference between these two costs per student are the costs for accommodation, administration, transportation and other.

Figure 7: Five-Year Average Per-Unit Costs to School Boards by Region, 2011/12–2015/16
Source of data: Ministry of Education; calculated by Office of the Auditor General of Ontario

	Administration Costs per School ($)	Accommodation Costs per School ($)	Instruction Costs per Student ($)	Transportation Costs per Student ($)	Other Costs per Student ($)	Total Costs per Student ($)
Northern Ontario rural	143,095	479,729	12,899	983	756	18,638
Northern Ontario rural/ urban mix	123,428	534,555	11,049	1,003	480	15,688
Southern Ontario rural	101,910	492,654	9,669	935	442	13,285
Southern Ontario rural/ urban mix	120,412	660,186	9,136	527	393	12,142
Toronto urban	136,313	746,602	9,700	254	419	12,563
GTA urban excluding Toronto	157,576	997,018	8,610	312	292	11,270
Province-Wide	**129,868**	**714,302**	**9,229**	**467**	**377**	**12,245**

Although many of these cost drivers likely are associated with differences due to geography and negotiated collective bargaining agreements, completing this type of analysis by regional unit costs and following up with the boards on the variances would allow the Ministry to understand where the funding formula may need to accommodate for various financial pressures and where savings could be found.

Correlation between Instructional Spending and Student Performance

We compared average five-year spending for classroom instruction with average performance results for the same five-year period (2011/12 to 2015/16) by board, to determine whether there is a correlation between instructional spending and student performance. We considered the following indicators for student performance: Grades 3 and 6 EQAO assessments in reading, writing, and math; Grade 9 EQAO assessments in academic and applied math; combined results of first-time and previously eligible writers of the Ontario Secondary School Literacy Test (OSSLT); credit accumulation by end of Grade 10; and the four-year graduation rate (results only available for 2011/12 to 2014/15).

The provincial target set by the Ministry for EQAO is that 75% of students will achieve a level three or four (equivalent to a B grade or better). The Ministry has not set a target for the Grade 10 credit accumulation indicator or the four-year graduation rate. Therefore, to be consistent with the target for EQAO, we used 75% as a proxy. According to our analysis, we found that:

- French-language school boards (both public and Catholic) spent more per student on classroom instruction, and French-language students (in both public and Catholic boards) outperformed English-language students. The average instructional cost per student in a French-language board was about $3,000 more than an English-language board. The Ministry told us that French-language boards have higher costs associated with French language instruction, such as the cost of translating textbooks. In terms of student performance, French boards on average achieved the provincial target in eight of the nine EQAO tests, whereas English-language boards on average achieved the provincial target in only six of the nine EQAO tests. As well, the four-year graduation rate in French-language boards was 89% in the public system and 82% in the Catholic system, compared

Figure 8: Five-Year Average Per-Unit Costs to School Boards within Regions, 2011/12–2015/16

Source of data: Ministry of Education; calculated by the Office of the Auditor General of Ontario

	# of Boards in Region	Administration Costs per School ($)			Accommodation Costs per School ($)			Instruction Costs per Student ($)			Transportation Costs per Student ($)			Other Costs per Student ($)		
		Min	Max	% Variance	Min	Max	% Variance	Min	Max	% Variance	Min	Max	% Variance	Min	Max	% Variance
Northern Ontario rural	7	89,900	311,800	247	368,000	680,200	85	11,800	17,000	44	740	1,100	49	350	1,052	200
Northern Ontario rural/urban mix	15	93,000	231,800	149	341,000	699,000	105	9,800	19,200	97	670	1,600	131	0	1,600	–
Southern Ontario rural	10	83,700	195,700	134	353,800	578,100	63	9,100	11,400	25	750	1,200	60	300	1000	233
Southern Ontario rural/urban mix	30	86,100	156,600	82	449,200	876,300	95	8,500	11,100	31	0	1,200	–	260	1,500	477
Toronto urban	2	113,800	144,200	27	694,700	764,700	10	9,500	9,800	3	200	300	50	300	700	133
GTA urban excluding Toronto	8	131,000	175,000	34	724,000	1,052,900	45	8,400	9,000	7	220	1,300	491	0	470	–
Province-Wide	**72**	**83,700**	**311,800**	**272**	**341,100**	**1,052,900**	**209**	**8,400**	**19,200**	**129**	**220**	**1,600**	**625**	**0**	**1,600**	–

with 81% and 70% respectively in the English-language system.

- Boards in Northern Ontario also spent considerably more per student on instruction: $12,800 compared with $9,300 in the south. This is a factor of the number of students enrolled. However, performance results are much lower in the northern boards, which on average achieved the provincial target in three of the nine EQAO tests, whereas southern boards on average achieved the provincial target in six of the nine EQAO tests. As well, the four-year graduation rate was 73% for boards in Northern Ontario, compared with 79% for boards in southern Ontario.

RECOMMENDATION 6

To further understand cost drivers, we recommend that the Ministry of Education regularly analyze costs being spent by individual school boards with similar characteristics to identify areas where fiscal restraint or a review of their expenditures is needed.

MINISTRY RESPONSE

The Ministry will continue to analyze costs drivers and how they compare to funding. The Ministry works regularly with school boards to identify funding requirements for special purpose grants; however, cost structures vary between boards due to several factors that are unique to each school board. These factors affect the cost per student across the province such as, but not limited to, the following: demographic circumstances, geographic area of each school board, socio-economic factors, teaching experience, negotiated collective bargaining agreements and performance of students.

4.4 Sick Days for School Board Employees Up 29% over Last Five Years

In 2016, a study commissioned by 56 Ontario school boards found that over a five-year period the average number of sick days per school board employee increased 29% overall: from nine days in the 2011/12 school year to 11.6 days in the 2015/16 school year.

This study excludes absences related to Workplace Safety and Insurance Board and long-term disability benefits. According to the study, the average number of sick days has increased province-wide for each employee group, such as teachers, custodians, educational assistants and early childhood educators.

Aside from the financial costs associated with absenteeism, the report also identifies indirect costs, such as reduced productivity and decreased morale for both staff and students. For more information on this issue, refer to our audit on School Boards' Management of Financial and Human Resources in **Chapter 3, Section 3.12.**

RECOMMENDATION 7

To reduce the rise in the number of sick days by school board employees, we recommend that the Ministry of Education ensure that school boards develop and implement effective attendance support programs.

MINISTRY RESPONSE

The Ministry agrees that this is an important issue. While attendance support programs are a local bargaining matter for school boards, the Ministry of Education is committed to encouraging practices that support staff attendance and well-being.

4.5 Ministry Places Moratorium on School Closures

The Ministry has taken action in recent years to support school boards facing issues of declining enrolment—resulting in many schools operating at less than 50% capacity—coupled with the deteriorating conditions of many schools that need to be repaired or replaced. However, more action is necessary to help school boards wrestling with decisions about closing or consolidating schools, or finding alternative solutions.

4.5.1 Ministry Measures to Address Underutilized Schools

The 2013 provincial Budget announced that the Ministry would consult with education stakeholders on efficiencies and modernization measures beginning in the 2014/15 school year. According to the Ministry's summary of the consultations that took place with stakeholders, "participants agreed that there are a number of ways of addressing unused space. One is to consolidate schools, which can involve closures and, sometimes, the building of a new school for the consolidated enrolments. Another is to share unused space in a school with another school, service provider and/or partner."

Since the consultations, the Ministry has taken steps through the development of the School Board Efficiencies and Modernization Strategy. These include the following changes to operating funding that began in 2014/15 and are to be phased in over four years:

- eliminating base top-up funding for the School Renewal and School Operations Allocations. At the time the strategy began, schools with underutilized space could receive additional funding beyond what their actual utilization rate would warrant. This could be as much as 30% top-up for schools with a utilization rate of 65% or less. The Ministry has announced it will phase out this top-up funding over the four years 2014/15 to 2017/18, which suggests that schools will no longer receive money to maintain unused space. This in turn will require school boards to decide which schools to close or consolidate; and
- providing additional funding for staffing where boards make the most use of space by combining elementary and secondary schools in the same building. Previously, a school that housed both an elementary and a secondary school was treated as a secondary school for funding purposes. Under the new approach, these schools are provided funding for elementary and secondary teachers separately, based on a school's corresponding elementary and secondary enrolment. This should result in more overall funding.

Beginning in 2014, capital initiatives and funding were also increased, including a four-year, $750-million School Consolidation Capital program to encourage boards to manage their school space more efficiently. At the time of our audit, 60 schools have been closed and 130 consolidated across 43 school boards. In addition, 69 schools from school boards within the same geographic boundaries shared facilities; in one case, schools from three boards share a facility. In the cases where facilities were shared, about half involved French-language schools sharing space with English-language schools, and half involved Catholic and public schools sharing premises.

Ministry Reviewing Process of School Closures

In June 2017, however, the Ministry of Education announced plans to overhaul the process school boards use when considering school closures. While it completes the assessment, school boards will not be allowed to initiate any new reviews. The process of closing or consolidating schools is permitted to continue for schools for which the process was under way at the time the Ministry made this announcement.

The Ministry's reasoning for initiating an assessment of its school closure process was to address issues brought forward during the engagement sessions held in 10 rural and northern communities

Figure 9: Percentage of Schools with Utilization Rates at 50% or Less by School Board Type, as of December 2016

Source of data: Ministry of Education

	Elementary		Secondary		Total	
School Board Type	#	(%)	#	(%)	#	(%)
English Public Boards	192	33	146	25	**338**	**58**
English Catholic Boards	100	17	11	2	**111**	**19**
French Public Boards	22	4	30	5	**52**	**9**
French Catholic Boards	50	9	32	5	**82**	**14**
	364	**63**	**219**	**37**	**583**	**100**

in spring 2017, along with an online survey conducted to inform the Province's Plan to Strengthen Rural and Northern Education. Representatives at the sessions included parents, students, community members, municipal governments and school boards.

Issues the Ministry is planning to address include making the process more inclusive of community and student perspectives, and establishing principles and goals for student achievement and well-being to use when deciding on school closures and consolidations, rather than just cost savings.

The Ministry has stated that its plan is to consider revisions to its Pupil Accommodation Review Guideline, such as to provide longer minimum timelines and more recommended pupil accommodation options; clarify roles for school board trustees and municipal governments; and support an increased student voice. The Ministry also plans to develop new resources for school boards to standardize and validate data, and develop templates for stakeholders to engage school boards.

The Ministry's assessment of the physical condition of schools in the province, conducted between 2011 and 2015, found that $15.2 billion in repairs are needed by 2020. Based on the Ministry's estimated replacement value, 19 school facilities would cost more to repair than replace. In addition, more than half a billion in repair needs over the next five years are required in school boards with less than 50% utilization. This adds to the need to make proper decisions regarding school closures and consolidations.

4.5.2 Schools across Province Are Operating at Less than 50% Capacity

Despite these ongoing measures and initiatives, many schools in the province are still underutilized.

As of December 2016, 38% of schools in Ontario—1,852 schools—had utilization rates of 75% or less; 13%, or 583, of these schools were operating at a utilization rate of 50% or less.

We analyzed the utilization data and found that most schools operating at 50% capacity or less were English-language schools within the public school sector; 63% were elementary schools, while 37% were secondary schools (see **Figure 9**).

Every region of the province had underutilized schools, with the Greater Toronto Area having the highest percentage of underutilized schools: 29%. See **Figure 10** for a regional comparison of those with a utilization rate under 50%.

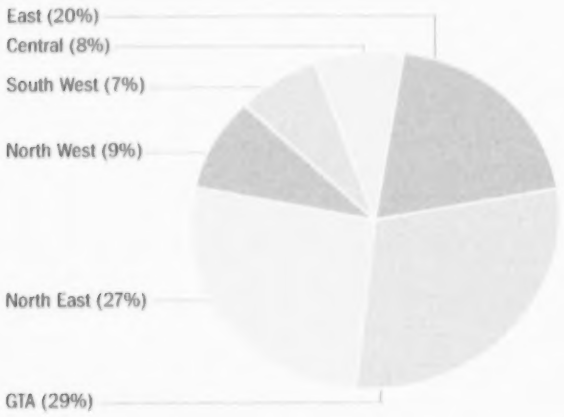
RECOMMENDATION 8

To work toward achieving the appropriate level of physical infrastructure required to meet current and future needs, we recommend that the Ministry of Education complete its review of the process school boards use when considering school closures and work with school boards to address the issues uncovered in the review.

MINISTRY RESPONSE

In June this year, Ontario launched its Plan to Strengthen Rural and Northern Education. The plan comprises process improvements

Figure 10: Regional Distribution of Schools with Utilization Rates at 50% or Less
Source of data: Ministry of Education



and funding enhancements designed to better support quality rural education, sustainable use of school space in rural communities, and decision-making around school closures.

While the spring engagement and the plan focused on Rural and Northern communities, the Ministry heard that the pupil accommodation review process requires an overhaul for all school boards across the province. The Ministry therefore began the process of revising its Pupil Accommodation Review Guideline (PARG) to promote inclusion of community impact alongside the focus on student achievement and well-being. The Ministry will also be revising the Community Planning and Partnerships Guideline (CPPG) to encourage joint responsibility for integrated community planning, with a focus on communication between school boards, municipal governments and community partners about boards' capital plans. The Ministry is currently seeking feedback on our proposed revisions to the PARG and CPPG online until December 6, 2017. In addition, we will be engaging with school board, municipal and other stakeholders at in-person meetings throughout the fall and will work with school boards to implement changes after engagements are completed in late winter 2018.

4.6 Enrolment Audits Insufficient to Show that Reported Enrolment Numbers Are Accurate

4.6.1 Ministry Audits Few School Boards' and Schools' Enrolment Numbers

Each year, the Ministry selects to audit a sample of school boards and schools from each of the selected boards. The number of schools audited depends on the number of schools within the board. The Ministry's goal is to have all 72 boards audited within an eight-year period.

The Ministry informed us that it used a risk-based approach to select school boards for enrolment audits. However, it only began formally documenting how school boards ranked against the risk factors considered beginning in 2016/17.

Risk factors considered include: the number of enrolment adjustments in previous audits; the school board's proximity to a provincial border; the size of the school board; the number of years since the board underwent an enrolment audit; and the school board's financial circumstances.

Over the six-year period from 2011 to 2016, only 260 or 6% of schools have been audited for enrolment purposes; that is, about 3% of all elementary schools in the province and 18% of all secondary schools. **Figure 11** provides a breakdown of the audits conducted over this period. However, the Ministry does not know when each school last underwent an audit as it does not maintain a list of which schools were audited and when.

At the time of our audit, the Ministry had ten full-time staff involved with enrolment audits. These staff also performed other duties.

The Ministry told us it stopped performing enrolment audits on elementary schools in fall 2015 to focus on secondary schools, which it considers to be of higher risk of inaccurate enrolment information. This higher risk of inaccuracy is due to the mobility and attendance of secondary students and alternative programs offered at the secondary level. Given the Ministry's available resources, this approach may be reasonable. However, the

Figure 11: Enrolment Audits Conducted from 2011 to 2016

Source of data: Ministry of Education

Year Audited	# of School Boards Audited	# of Elementary Schools Audited	# of Secondary Schools Audited
2011	8	23	28
2012	9	13	24
2013	18	34	26
2014	14	27	33
2015	12	4	26
2016	9	0	22
Total audited *	**65**	**100**	**158**
Provincial Total	**72**	**3,712**	**878**
% Audited	**90**	**3**	**18**

* Unique count as five school boards and two schools were audited twice in the six-year period.

number of audits in secondary schools actually decreased since the Ministry stopped auditing elementary schools.

Enrolment audits are conducted not only by Ministry staff, but also by school boards' internal and external auditors. However, the results of the school boards' own audits are not shared with the Ministry. Specifically:

- School boards' regional internal audit teams may also conduct enrolment audits if requested by the school boards' audit committees. These audit findings are only reported internally to school board management and the audit committee and are not shared with the Ministry. As a result, these audits do not provide any assurance to the Ministry. According to the school boards that responded to our survey, 63% have internal audit staff audit enrolment data.
- External auditors of school boards who audit the boards' financial statements also perform some procedures to gain assurance of the accuracy of student enrolment numbers recorded and reported to the Ministry. According to the school boards that responded to our survey, 61% have their external auditors conduct some verification procedures on their enrolment data. However, no separate audit opinion or report is prepared. Although the procedures do aid school boards in gaining assurance that they are recording and reporting enrolment data correctly, the procedures are not as extensive as those conducted by the Ministry.

4.6.2 Ministry Does Not Audit Enrolment of All Student Groups Used in Calculating Funding

The Ministry does not audit the enrolment of some student groups, such as those receiving special-education programs, even though such enrolment is used to calculate the amount of funding a school board receives under special purpose grants.

Enrolment audits conducted by the Ministry cover regular day-school students and ESL students. However, it does not audit enrolment in special education, Indigenous and French-language programs.

Enrolment of students receiving special-education programs and services was used to calculate 2% (or $61.5 million) of the Special Education Grant in 2016/17. Enrolment of students in Indigenous language or Indigenous studies programs was used to directly calculate 52% (or $32.1 million) of the Indigenous Education Grant in 2016/17. And enrolment of students in French-language programs was used to calculate 36% (or $259.1 million) of the 2016/17 language grant.

4.6.3 Significant Funding Adjustments Resulting from Enrolment Audits

We reviewed a sample of enrolment audit files completed during the three school years 2013/14 to 2015/16, and found that they noted weaknesses in schools' internal control systems over the enrolment recording process, across many school boards. We found the following common errors made by the schools audited in our sample:

- 14% incorrectly reported students enrolled in programs that provide courses through independent learning on the regular day-school register instead of on the independent-study day-school register;
- 49% did not have appropriate documentation available to support having on the enrolment register students who were absent for more than 15 consecutive days;
- 59% did not remove students from the enrolment register after the last day they attended classes due to changing schools or leaving the school system altogether; and
- 37% did not have appropriate documentation to support students who were not removed from the enrolment register, even though they were absent for 15 or more consecutively scheduled classes. This is the maximum number of consecutive classes a student is permitted to miss without providing medical documentation.

The Ministry tracks errors in the number of full-time equivalent students resulting from enrolment audits, but prior to fall 2016 it did not track the financial impacts of those errors. Upon our request, the Ministry calculated the financial impact of audit adjustments for the enrolment audits we reviewed. Based on 22 school board audits on 71 schools (1.5% of schools in the province) conducted from 2013/14 to 2015/16, we noted that the Ministry had reduced operating grants to school boards by $4.6 million in total. Six of these boards each had their operating grants reduced by at least $400,000.

However, the Ministry informed us that, as a matter of practice, it does not verify or follow up on whether school boards have implemented recommendations resulting from its enrolment audits.

RECOMMENDATION 9

To increase assurance of the reliability of enrolment data used in calculating Grants for Student Needs funding to school boards, we recommend that the Ministry of Education:

- set specified audit procedures for enrolment audits that include auditing enrolment numbers of student groups used in calculating funding, such as Indigenous students and students receiving special-education programs or services; and
- assess the costs and benefits of requiring school boards to have these audits performed annually by their external auditors.

MINISTRY RESPONSE

The Ministry agrees that it should review its current audit cycle in order to try to reduce the number of years between review periods; however, this review will need to also take into consideration additional administrative costs of this approach.

The Ministry will do the following:

- review the scope of its compliance audits to assess the financial impact of all allocations that are student driven. This review will be guided by the existing Ministry risk-based approach to drive the audit selection process for all future compliance type audits; and
- assess the costs and benefits of requiring school boards to have enrolment audits performed annually by their external auditors.

RECOMMENDATION 10

To address errors found during enrolment audits and to mitigate the risk of future errors, we recommend that the Ministry of Education follow up with school boards to ensure that recommendations resulting from enrolment audits have been implemented.

MINISTRY RESPONSE

The Ministry agrees to introduce a follow-up process with school boards regarding the implementation of enrolment and teacher qualifications and experience audit recommendations.

4.7 Ministry Often Does Not Follow Up When Deficiencies Found

4.7.1 Ministry Conducted Reviews of School Board Operations but Does Not Know If Recommendations Implemented

Between September 2008 and June 2011, the Ministry commissioned operational reviews of all 72 school boards. The purpose of the operational reviews was to assess the extent to which school boards have implemented leading practices in four functional areas set out in the Operational Review Guide for Ontario District School Boards: governance and school board administration; human resource management and school staffing/allocation; financial management; and school operations and facilities management. School boards were reviewed on 145 leading practices. At the end of the review, each board received an individualized report that included an assessment of its performance related to these leading practices.

Figure 12 summarizes the level of adoption of the 145 leading practices within each of the four functional areas by all school boards combined that the reviewers felt were in place at the time of the review.

Consultants also conducted a follow-up review 12 to 18 months after the school boards received their reports. These took place between 2009 and 2012, depending on when the original board review took place. The review teams followed up with each board only on selected recommendations to determine whether further progress had been made in adopting leading practices. No additional follow-up on progress has occurred since.

RECOMMENDATION 11

In order to ensure that leading practices identified during the operational reviews of school boards have been adopted, we recommend that the Ministry follow up with school boards to identify the implementation status of key recommendations outlined in their operational reviews, and work with school boards to put best practices in place, where it has not been done.

MINISTRY RESPONSE

The Ministry will continue to engage with school boards to encourage adoption of best practices. All Operational Review Reports, leading practices guides and sector summary reports are posted and available on the School Business Support Branch's website. In addition, the Ministry, in collaboration with school boards and using the Council of Senior Business Officials Effectiveness and Efficiency Advisory Committee, has developed a library of resources to assist school boards in adopting many of the best practices identified in the Operational Reviews. These resources are also available on the School Business Support Branch's website.

Figure 12: Percentage of School Boards Adopting Leading Practices in Four Categories

Source of data: Ministry of Education

Category	# of Leading Practices Reviewed	Adopted Status (%)				
		Fully	Significantly	Partially	Not	Total
Financial Management	47	1	79	19	1	**100**
Governance and School Board Administration	15	0	64	29	7	**100**
Human Resources Management and School Staffing/Allocation	33	2	81	17	0	**100**
Operations and Facilities Management	50	3	56	33	8	**100**

4.7.2 Ministry Not Following Up with School Boards that Do Not Report in Accordance with Transfer Payment Agreements

We found that school boards' reporting as required under transfer payment agreements was often incomplete. In many instances, the missing information undermined the Ministry's ability to know if the allocation was spent as intended.

We selected 10 Education Program—Other (EPO) grants provided to school boards for the 2015/16 year and tested three transfer-payment agreements for each selected grant, for a total sample of 30 contracts. The grants were administered by five different Ministry branches, and represented almost half of total EPO funding provided to school boards in that school year.

In 30% of files reviewed, we found that the required reporting was incomplete. Although these school boards had submitted portions of what was required, they did not provide all required information. For example, a report submitted by one board, which received $817,000 in funding for the Outdoor Education Program, did not report the number of students who participated in the program. Hence, the Ministry did not know the extent to which this program was serving students.

In another case, all three boards we tested for compliance with transfer payments for the Library Staff program had failed to report in their annual reports, as required, the number of staff hired. These three boards received a combined $380,000 in funding for this program.

We asked the Ministry if it had followed up with the relevant school boards to receive the missing required information. It stated it had not done so.

Further, in all cases where the school board failed to provide the full required reporting, the boards received funding in the following year for the same program.

RECOMMENDATION 12

Where the Ministry of Education determines that the best form of funding a program is through transfer payments, we recommend that the Ministry develop procedures to ensure the required reporting is fulfilled, and that if reporting requirements are not met, that additional funding not be provided the following year.

MINISTRY RESPONSE

The Ministry agrees with the recommendation. As part of our modernization strategy for school board transfer payments, we will refine processes to ensure that transfer payments meet the requirements set out in the Transfer Payment Accountability Directive and Cash Management Directive. The Ministry's controllership and internal audit function will continue to provide advice and knowledge transfer to the Ministry via key forums and targeted compliance review and support.

4.8 Concerns with Class Size Requirements

The Ministry has identified smaller class sizes as a key factor in student success. Class size restrictions for all grades that were in place at the time of our audit are outlined in O. Reg. 132/12 to the *Education Act, 1990* (Act) (see **Figure 13**). These class size restrictions determine the number of teachers needed by a school board.

On June 30, 2017, the regulation was updated to include a cap on the maximum class size for students in full-day kindergarten. In the 2017/18 school year, the board average for kindergarten class size remains at 26 students, but classes will be capped at 30 students, this drops to 29 students beginning in 2018/19 with the exception that 10% of a board's classes will be permitted to have up to 32 students. In addition, the cap on the average class size per board for Grades 4 to 8 was set at 24.5 or fewer by the 2021/22 school year.

Figure 13: Class Size Restrictions per Grade

Source of data: *Education Act, 1990*, O. Reg. 132/12, effective until June 29, 2017

Grade	Class Size Restrictions
Full Day Kindergarten (Junior and Senior Kindergarten)	• Average class size per school board not to exceed 26.
Primary classes (Grade 1–3)	• Maximum class size of 23 students. • At least 90% of classes in a school board should have 20 or fewer students.
Grade 4–8	• Regulation outlines average class size for 36 school boards ranging from 18.5 to 26.4. • Remaining 36 school boards are restricted to an average class size of 24.5 students per class.
Mixed classes (Primary and Grade 4–8)	• Maximum class size of 23 students.
Secondary school	• Average class size per school board not to exceed 22 students per class.

4.8.1 Class Size Requirements Not Enforced Throughout the School Year

The regulation that restricts class sizes for all grades requires school boards to report compliance on pre-determined dates. For elementary schools, boards can select any day in September to calculate their class sizes. For secondary schools, boards submit data on the number of classes and students per secondary school twice, once as of October 31 and then as of March 31.

The reported data is used by the Ministry to calculate secondary class size averages for each board. The four boards visited as part of the audit of school boards (see **Chapter 3, Section 3.12**) interpreted the requirement to mean that they had fulfilled the regulation as long as they met the class size restrictions on the reporting date. School boards indicated that maintaining the class sizes throughout the year would be difficult because enrolment numbers fluctuate, and the board might not have the money to add extra classes.

The boards said that the risk that class sizes will get too large is mitigated by the fact that teachers or their unions could contact the board if the class sizes do not comply with the class sizes negotiated with the local union. However, the negotiated class size caps may be different from the Ministry's. Although negotiated class sizes are generally less stringent than those imposed by the Province, boards are aware that the unions enforce those restrictions throughout the school year.

RECOMMENDATION 13

To monitor whether class sizes are maintained throughout the year, and not just on the reporting dates, we recommend that the Ministry of Education:

- inform school boards that class size restrictions should be in effect throughout the school year, and not just on the reporting dates; and
- verify class sizes at select schools at various times throughout the year.

MINISTRY RESPONSE

The Ministry agrees to explore a process to verify class sizes at select schools throughout the year using a risk-based approach.

The Ministry expects school boards to make best efforts to maintain class size limits throughout the year while keeping the best interest of students in mind. However, stability is critical to student success. Should a few students move into or out of a particular neighbourhood later in the school year, changes that boards make to remain compliant could result in significant

disruption, as students are required to establish new relationships with teachers and classmates. It could also require that students change schools mid-year in situations where limited space is available.

The Ministry is committed to using the current September count date to determine school board compliance with class size requirements. This reporting date helps boards make staffing and class organization decisions based on actual enrolment in the first few weeks of school and to minimize further disruption to students.

4.8.2 No Maximum Cap on Classes in Grades 4 to 12

As of the 2017/18 school year, only classes for full-day kindergarten and Grades 1 to 3 have a maximum class size restriction. For all other grades (Grades 4 to 8, and secondary school), school boards are restricted to an average class size. This means that not all students will be benefitting from smaller class sizes.

At the time of our audit, there was a cap on the average class size for Grades 4 to 8 per board. For half of the school boards, the average class size per board was capped at 24.5 students. And for the other half, the cap on the average class size ranged from 18.5 to 26.4 students (22 boards were above 24.5 and 14 boards were below). When the Ministry introduced the average Grades 4 to 8 class size restrictions in June 2012, it set the caps to match individual board's average class size at that time. A similar cap on the average class size among boards would promote equity across the system.

In April 2017, the Ministry announced that average class size restrictions for all 22 boards that were previously above 24.5, will be reduced to 24.5 by the 2021/22 school year, and the regulation was updated to reflect the change as of June 30, 2017.

However, there is no maximum class size for these grades. All other elementary school grades have a regulated class size maximum that ensures all Ontario students benefit from smaller class sizes.

RECOMMENDATION 14

In order for all students in the province to benefit from smaller class sizes, we recommend that the Ministry of Education assess the costs and benefits of implementing maximum class size restriction caps for Grades 4 to 12, similar to ones in place for kindergarten and Grades 1 to 3, to complement the restrictions on average class size.

MINISTRY RESPONSE

The Ministry agrees to continue to regularly review its policies on class sizes, in collaboration with school boards and education partners, to ensure the best outcomes for students. Changes to class size averages or limits can represent substantial financial impacts requiring extensive review.

4.9 Ministry Generally Ensuring School Boards Are Complying with Regulations

The *Education Act, 1990* has 81 regulations associated with it. We reviewed key regulations and followed up on those where the Ministry was required by the regulation to collect, review and approve information, or where we thought it would be prudent for the Ministry to provide oversight due to the potential impact on funding or student well-being. We examined Ministry processes for select regulations to determine the extent of assurance the Ministry obtains to ensure school boards are compliant.

We noted cases where the Ministry's oversight was effective in providing confidence that school boards were compliant with the requirements of the regulation. For example:

- *Budgeted deficits*: School boards can budget for an in-year deficit limited to the lesser of the school board's accumulated surplus from the preceding year or 1% of the current year's funding allocation. For deficits in excess of

this amount, school boards are required to get approval from the Minister of Education. For the period 2014/15 to 2016/17, 17 school boards budgeted for a deficit in excess of the stated limit in at least one of those years, and in all cases the proper ministerial approval was received.

- *School boards on financial recovery plans*: We reviewed the financial status for the 2016/17 school year of all eight school boards that have been on a multi-year financial recovery plan for at least one year to determine whether their financial health has improved. Based on the most recent budget information, in six of the eight cases the financial position reported by school boards has improved.
- *Special-Education Plans*: School boards are required to submit a special-education plan indicating the special-education programs and services that will be offered and how they will be delivered. The regulation also requires that the plan be reviewed and approved by the Minister. To accomplish this, the Ministry sets the standards for special-education plans and collects and analyzes the plans. For a sample of special education plans we reviewed, we noted that they had been submitted and approved by the Ministry as required.
- *School Board Audit Committees*: School boards are required to have functioning audit committees with a specified member composition. The Ministry ensures compliance through the annual submission by school board audit committees of their annual audit committee report, which lists the audits completed during the past year and those planned for the coming year. We reviewed submissions to the Ministry from all 72 school boards for each of the last five years ending 2015/16 and noted the requirements had been met in all cases.

4.9.1 Legislated Spending Caps on Governance and Administration Expenses Increased When Compliance Not Achieved

School boards are required to report governance and administration expenses in the Ministry's education finance information system, which the Ministry uses to determine whether school boards are compliant with the legislated spending cap on board governance and administration.

Based on information submitted by school boards for the 2015/16 school year, we found 13 school boards were not in compliance with the cap, meaning the boards spent in excess of the allowable limit. Seven were French-language boards and six were English-language boards. For those boards that spent in excess of the limit, the median amount overspent was $250,300. The Conseil des écoles publiques de l'Est de l'Ontario, whose cap was $5.9 million, overspent by $927,000.

We also noted that of the 13 boards that were not compliant in 2015/16, 11 were also non-compliant in the prior year.

The Ministry did not penalize any of these boards for being non-compliant. Rather, for the 2017/18 school year, it increased the spending cap on board governance and administration for most school boards. The overall increase since 2015/16 was 8%, with the highest increases provided to all 12 French-language boards—their limit increases ranged from 32% to 73%. We noted that if the 2017/18 caps were applied to actual spending in 2015/16, only one board would have exceeded its limit instead of the 13 previously noted. The Ministry informed us that the adjustment to the administration and governance limit was higher for the French-language school boards in order to acknowledge the additional costs of operating in a minority language.

4.10 No Assurance Municipalities Remitting Correct Amount of Education Property Tax to School Boards

The Ministry of Education (Ministry) determines the total amount of funding each school board is entitled to receive in the year under the Grants for Student Needs (GSN). A portion of the GSN funding is remitted to school boards by municipalities through the Education Property Tax. The entire amount of funding is provided to them by the Ministry, as it is responsible for providing all remaining funding not provided through the Education Property Tax. The boards therefore have little incentive for ensuring the complete and accurate amount of Education Property Taxes is received.

The Ministry currently has no way of verifying that the amount of Education Property Taxes remitted by municipalities to the school boards is accurate. School boards submit audited financial statements to the Ministry; however, the statements are not detailed enough for the Ministry to confirm whether the education property tax revenues recorded by the boards are accurate. As part of the Ministry's validation of information submitted by school boards, finance officers perform a year-over-year variance analysis to assess the reasonableness of the amounts reported by school boards, but are unable to actually verify the amounts.

Education property tax rates are set centrally by the Ministry of Finance. However, as noted by the Ministry of Education, the collection and distribution process is cumbersome with over 400 municipalities remitting to the four school board types, four times per year, which adds up to 7,000-plus transactions per year.

In 2013, the Ministry of Education assessed other options for collecting and distributing the education portion of property tax. It noted that in British Columbia, the education portion of property tax is remitted by municipalities to the provincial government for distribution to school boards.

However, the Ministry of Finance told us there were concerns that any changes could result in less transparency and greater confusion about Education Property Tax, as taxpayers could perceive that these taxes no longer support the education system.

RECOMMENDATION 15

To simplify the administrative process of remitting Education Property Tax funding to school boards and to ensure that all Education Property Taxes collected from taxpayers are being remitted, we recommend that the Ministry of Finance:

- assess whether there is benefit to collecting Education Property Taxes centrally on behalf of the Ministry of Education to distribute through the Grants for Student Needs; and
- develop procedures to verify the accuracy and completeness of Education Property Tax received.

MINISTRY OF FINANCE RESPONSE

The Ministry of Finance agrees that it is critical to ensure that all Education Property Taxes are being appropriately remitted.

The Auditor General's recommendation related to verifying the accuracy of Education Property Tax payments is consistent with efforts already underway by the Ministry of Finance to enhance the tracking and analysis of Education Property Tax transfers. The Ministry of Finance is committed to expanding its capacity to accurately track and verify the remittance of Education Property Taxes from municipalities to school boards, as well as between individual taxpayers and municipalities.

In response to the Auditor General's recommendation related to the collection of Education Property Taxes centrally, the Ministry of Finance will assess whether it would be beneficial to collect these revenues centrally.

When assessing options and developing additional procedures for tracking Education Property Tax revenues, the Ministry of Finance recognizes that it will be important to ensure that approaches are efficient and minimize any additional administrative burden for the Province as well as school boards and municipalities.

Appendix 1: Additional Information on School Board Funding and Oversight

Source of data: Ministry of Education

Allocation and Use of Grants For Student Needs

The amount of Grants for Student Needs (GSN) funding to be allocated to each school board is based to a large extent on overall student enrolment. But funding also takes into account many different factors, such as schools that are small, isolated, or have large numbers of students requiring special education programs or services, or who are without English or French as a first language.

Funding provided through the foundation grants can be used at the board's discretion for any purpose. A little over one-third of the funding provided through the special purpose grants is "restricted" in that it must be used for that special purpose. In some cases, funding must be spent on the specific purpose of the specific grant component; for example, funding for special equipment for students receiving special-education services or programs must be spent on such equipment. In other cases, funding for certain grant components can be spent for other purposes, as long as they are within the overall grant category. But in nearly two-thirds of cases, funding for specific components can be used for any purpose—it is not restricted to uses related to the grant category under which it is allocated. **Appendix 2** outlines whether special purpose funding for each grant component is restricted to the component, to its overall grant category, or is entirely unrestricted.

Funding Source for the Grants for Student Needs

The amount of GSN funding calculated by the Ministry of Education (Ministry) for each school board represents the maximum amount the school board is entitled to from both the Province and the school board's municipality or municipalities.

The Ministry of Finance sets education property tax rates for the entire province. Municipalities collect the Education Property Tax and distribute it to school boards in their jurisdiction. No municipality generates enough Education Property Tax to cover the entire GSN allocation to the school boards operating in their areas. In 2016/17, the range was as low as 5% for a school board with a low tax base (such as the Conseil scolaire de district catholique des Aurores boréales) to as high as 54% for a school board with a large tax base (such as the Toronto District School Board). The Province provides funding for the difference between the Education Property Tax collected and the total allocation as determined by the GSN funding formula.

Every December, municipalities provide school boards with a statement that indicates the amount of Education Property Tax remitted to the school board in the prior calendar year and a forecast for the next calendar year. Municipalities generally remit the Education Property Tax to school boards on a quarterly basis. School boards report to the Ministry the amount of the Education Property Tax expected to be received from municipalities through budget estimates at the beginning of the school year. Any adjustment resulting from a year-end reconciliation is applied to the Ministry's payments in the following school year.

Ministry's Processes for Updating the Funding Formula

Each fall, the Ministry holds annual consultations on education funding for the following school year with school boards and other stakeholders, such as school board trustee associations, teacher unions, and parent and student groups. The annual consultations provide an opportunity for school boards and stakeholders to advise the Ministry on their

concerns about education funding and provide suggestions on how to improve the funding mechanism.

Because Grants for Student Needs (GSN)—the main source of operational funding for school boards—is so large and diverse, the Ministry normally focuses on specific areas or themes of education funding each year. For example, the 2016/17 consultations focused on ways to improve specific grants intended to help close the achievement gap for specific groups of students. These included the Special Education Grant; the First Nations, Metis and Inuit Education Supplement; the Language Grant; the Learning Opportunities Grant; and the Safe and Accepting Schools Supplement. In 2017/18, the Ministry is seeking input on areas such as the renewed math strategy, digital education, Indigenous education, and compliance with the School Board Administration and Governance spending limit.

The Ministry summarizes consultation discussions in an annual document. Based on the information from the in-person discussions and any written submissions received from school boards and stakeholders, the Ministry may decide to make changes to education funding.

Ministry Oversight Practices

Budgeting and Reporting Cycle for the 2017/18 School Year

The school year runs from September 1 to August 31. In March, the Ministry releases the regulatory changes to the funding allocation to school boards for the next school year. Each school board then submits a budget estimate to the Ministry by June 30. Based on the estimates, the Ministry begins to remit funding to school boards on a monthly basis beginning in September. School boards submit revised budget estimates by December 15, and final actual expenses by November 15, following the end of the school boards' fiscal year of August 31.

The Ministry conducts a review of these estimates and actual expenses when submitted to evaluate the accuracy, completeness, and reasonableness of the information provided. For example, staff review certain expense schedules submitted by boards, such as for school operations and maintenance and for salaries and benefits, to ensure boards have completed them. Additionally, staff compare prior years' closing balances to the current year opening balances to ensure boards have accurately inputted the data.

Staff also review year-over-year variances, such as for tax revenue and enrolment figures reported, to assess the reasonableness of the data submitted. The Ministry also assesses whether each school board is complying with the limit set on how much of an in-year deficit it can run and whether school boards are in compliance with the cap set on board administrative spending. The cap requires boards to spend on administration only what they are allocated under the School Board Administration and Governance Grant under the GSN, plus a portion of other GSN grants that support expenditures for board administration.

School boards submit all financial information to the Ministry electronically through its financial IT system. The financial IT system has built-in validation checks that are used to detect potential errors or variances in the numbers that the boards input into the system to create the financial reports. School board officials are not able to submit a report until all errors have been corrected in the system and explanations provided in response to warning messages that result from the validation checks. The Ministry's checking procedures include reviewing warning message explanations and verifying that the board's Director of Education has signed off on the submission.

After the school year ends, school boards submit audited financial statements to the Ministry by November 15. Upon receipt of these statements, the Ministry verifies that certain balances reported in the audited financial statements, such as total assets, total liabilities, total revenue and total expenses, agree with what is reported in the financial IT system.

School boards are required to report all expenses to the Ministry in defined expense categories under five main expense headings: instruction (classroom expenses and school administration costs); administration (school board administrative costs and trustees' expenses); pupil transportation; pupil accommodation (costs to operate and maintain the school); and other. The exception to this is the reporting required for restricted funding, such as for special education. For this funding, school boards must report the amount of their allocation spent for the restricted purpose.

Other Specific Reporting Requirements under the GSN

Some GSN special-purpose grants have accountability mechanisms requiring boards to report financial and non-financial information to various branches within the Ministry.

For example, in 2016/17, $59.8 million was allocated for Student Success, Grades 7 to 12. This funding was intended to enhance preparation for students to pass the Grade 10 literacy test, and to increase opportunities for students to participate in successful school-to-work, school-to-apprenticeship, or school-to-college pathways. Boards are asked to complete a report indicating strategies used to improve literacy and numeracy, and other ways students will be supported, plus a report detailing actual spending compared with budgeted amounts submitted at the beginning of the school year.

Deficit Approvals

According to the Act, school boards are expected to submit a balanced budget for the year. However, they are permitted to have a budgeted in-year deficit. That deficit is limited to the lesser of the school board's accumulated surplus from the preceding year or 1% of the current year's operating funding allocation. The Minister of Education's approval is required if a school board's deficit exceeds this amount. If a school board has an in-year deficit—projected or actual—that exceeds this amount or an accumulated deficit, the Ministry may order the school board to prepare a financial recovery plan.

The Financial Analysis and Accountability Branch reviews budget submissions to ensure compliance with the balanced budget requirements. It may provide school boards with external consultants to help them develop financial recovery plans. At the time of our audit, eight boards were on a recovery plan and one board was working with an external consultant to develop a recovery plan.

Enrolment Audits Conducted by the Ministry

Student enrolment numbers play a significant role in determining the amount of funding the Ministry provides school boards. It is therefore important for the Ministry to ensure that enrolment numbers reported by school boards are accurate, both in total and by groups of students.

Funding for the majority of the GSN grant components (51 of a total of 74 grant components in 2016/17) is based to a large extent on student enrolment data. For example, the largest component of the GSN, the Pupil Foundation Grant—which in 2016/17 was $10.6 billion or 46% of the entire GSN—is based directly on school boards' reported average daily enrolment.

As well, portions of some grants are based on enrolment of specific groups of students, such as English as a Second Language (ESL), French as a Second Language (FSL), and Indigenous students. For example, in 2016/17, the number of ESL students determined 31% of the Language Grant.

Student enrolment numbers for the current school year are reported by school boards through the Ministry's student information system (OnSIS) on October 31 and March 31.

The Ministry conducts enrolment audits to ensure accurate reporting of student enrolment data by reviewing school board records and student files at select schools. In addition to total enrolment in day school, the audits are also supposed to verify enrolment numbers in ESL, FSL in French-language

boards and alternative programs. The enrolment registers are audited in the fall and spring.

Key procedures during enrolment audits include, among other things, reviewing documentation to ensure that students are correctly recorded as full-time or part-time; that students transferring schools or leaving the publicly-funded school system were taken off the register on the correct date; that students absent for 15 or more consecutive school days have been removed from the register; and that ESL students are actually eligible for ESL funding.

Reviews of School Board Operations

The Ministry commissioned external consultants to conduct operational reviews and follow-up reviews for all 72 school boards from 2008 to 2012. The Ministry's goal was to enhance management capacity within school boards by encouraging good stewardship of public resources and by leveraging and sharing best practices in the areas of governance and school board administration; human resource management and school staffing/allocation; financial management; and school operations and facilities management. The reviews cost the Ministry almost $5.7 million in total.

The Ministry also conducted a follow-up review 12 to 18 months after the school boards received their reports. The review teams followed up with each board on selected recommendations based on the board's initial review and determined the level of adoption of the recommendations.

In 2013, the Ministry released a final report, *The Road Ahead: A report on continuous improvement in school board operations*. Although the report noted that school boards as a whole were functioning at acceptable standards of operational performance, it did identify areas of improvement needed in many school boards, such as the need to develop comprehensive attendance-support programs. The individual board reports and *The Road Ahead* are publicly available on the Ministry's website.

Appendix 2: Restrictions on Spending of Special Purpose Grant Components, 2016/17

Source of data: Ministry of Education

Name of Grant	Funding ($ million)	Name of Grant Component	Funding Restricted to Specific Component ($ million)	Funding Restricted to Grant ($ million)	Funding Fully Unrestricted ($ million)
Fully Restricted					
Special Education Grant: Provides funding for programs, services, and/or equipment for students with special education needs	2,786.5	Special Education per Pupil Amount		1,437.9	
		Differentiated Special Education Needs Amount (Formerly High Needs Amount)		1,050.0	
		Special Equipment Amount	104.4		
		Facilities Amount		98.2	
		Special Incidence Portion		84.3	
		Behaviour Expertise Amount		11.7	
Total	**2,786.5**		**104.4**	**2,682.1**	
Partially Restricted					
School Facility Operations and Renewal Grant: Supports the cost of operating, maintaining and repairing school facilities	2,414.0	School Operations			2,053.0
		School Renewal	361.0		
School Board Administration and Governance Grant: Funding for administrative costs such as board-based staff, board offices and facilities, trustee compensation, parent engagement, consolidated accounting and internal audit	594.2	Board Administration			568.7
		Trustees Amount			11.2
		Reporting Entity Project			6.1
		Internal Audit	5.0		
		Parent Engagement Funding			3.0

Name of Grant	Funding ($ million)	Name of Grant Component	Funding Restricted to Specific Component ($ million)	Funding Restricted to Grant ($ million)	Funding Fully Unrestricted ($ million)
Learning Opportunities Grant: Provides funding to help students who are at a greater risk of lower academic learning	531.9	Demographic			353.0
		Student Success, Grades 7 to 12*	59.8		
		Grade 7 and 8 Literacy and Numeracy and Student Success Teachers*	21.5		
		Specialist High Skills Major*	18.7		
		School Effectiveness Framework*	18.3		
		Outdoor Education*	17.1		
		Literacy and Math Outside the School Day*	16.2		
		Library Staff	9.8		
		Mental Health Leaders	8.7		
		Ontario Focused Intervention Partnership Tutoring*	8.2		
		School Authorities Amalgamation Adjustment			0.6
First Nations, Metis, and Inuit Education Supplement: Supports programs designed for Aboriginal students, as outlined in the Ontario First Nation, Metis, and Inuit Education Policy Framework	61.4	First Nation, Métis, and Inuit Studies Allocation			23.2
		Per Pupil Amount	11.9		11.6
		Native Languages			8.9
		Board Action Plans			5.8
Total	**3,601.5**		**556.4**		**3,045.1**
Not Restricted					
Student Transportation Grant: Funding to transport students to and from school	903.6	Enrolment Adjustment			903.6
		Cost Update Adjustment			
		Fuel Escalator and De-escalator			
		Funding for Transportation to Provincial or Demonstration Schools			
Language Grant: Provides funding to meet school boards' costs for language instruction	714.7	French as a Second Language (English school boards)			259.1
		English as Second Language/ English Literacy Development			256.3
		Actualisation linguistique en français (only French school boards)			114.4
		French as a first language (for French School Boards)			79.7
		Programme d'appui aux nouveaux arrivants (only French school boards)			5.2

Name of Grant	Funding ($ million)	Name of Grant Component	Funding Restricted to Specific Component ($ million)	Funding Restricted to Grant ($ million)	Funding Fully Unrestricted ($ million)
Interest Expense and Non-Permanently Financed Capital Debt: Funding to service debt provided to school boards for capital expenditures	477.0	Interest on Capital Debt	411.3		
		Non-permanently Financed Capital			65.7
Continuing Education and Other Programs Grant: Supports programs aimed at adult learners and day-school students including secondary students who have completed more than 34 credits and wish to continue their studies	140.7	Continuing Education			56.7
		Summer School			32.5
		International Languages			26.8
		Adult Day School			16.6
		High Credit Day School			6.4
		Prior Learning Assessment and Recognition			1.7
Safe and Accepting Schools Supplement: Supports the Safe Schools Strategy and provides targeted support to secondary schools in priority urban neighborhoods	47.5	Safe and Accepting Schools			37.5
		Urban and Priority High Schools			10.0
Total	**2,283.5**		**411.3**		**1,872.2**
Top-up Funding					
Cost Adjustment and Teacher Qualifications and Experience Grant: Provides additional support for classroom staff who have qualifications and experience and average salaries above the benchmark provided through the Pupil Foundation Grant	2,019.5	Teacher Qualification and Experience			1,762.5
		Early Childhood Educator Qualification and Experience			127.7
		Labour Items and Benefits Trust			68.9
		Cost Adjustment for Non-Teaching Staff			56.6
		Non-Union Staff Reduction			(10.0)
		New Teacher Induction Program	13.8		
Geographic Circumstances Grant: Provides funding for higher costs due to remoteness of rural boards and schools	190.7	Remote and Rural			119.5
		Supported Schools			69.8
		Rural and Small Community			1.4
Declining Enrolment Adjustment: Available to school boards that adjust their costs downward	18.9	First-year component			18.9
		Second-year component			
Total	**2,229.1**		**13.8**		**2,215.3**
Total Special Purpose Funding	**10,900.6**		**1,085.9**	**2,682.1**	**7,132.6**
Restricted and Unrestricted (%)			**35%**		**65%**

* Boards have flexibility in how they spend these allocations as long as in total they are spent on these seven programs marked with an asterisk.

Appendix 3: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	The allocation of funds by the Ministry of Education (Ministry) to school boards through the Grants for Student Needs (GSN) or transfer payment agreements (Education Programs–Other) should be equitable and reflect education needs across the province.
2.	The Ministry should have effective procedures in place to ensure that its funding for the operation of school boards is being used as intended, particularly enveloped funding and funding through contractual agreements. Where necessary, corrective action should be taken on a timely basis.
3.	The Ministry should have effective procedures in place to be able to accurately calculate the Ministry's portion of GSN funding. (e.g., School Board Operating Grant vs municipalities' Education Property Tax).
4.	The Ministry should have effective oversight procedures to ensure that school boards operate in compliance with key legislated and Ministry policy requirements.
5.	The Ministry should have processes in place to measure school board operating performance against established expectations, including those in the Ministry's strategic plan and mandate letter. Where necessary, corrective action should be taken on a timely basis.

Ministry of Health and Long-Term Care

Ontario Public Drug Programs

1.0 Summary

About four million Ontarians receive drug coverage through the Ontario Public Drug Programs (Programs) each year. The Ministry of Health and Long-Term Care (Ministry) is responsible for administering the Programs, which cover most of the cost of over 4,400 drug products listed on the Ontario Drug Benefit Formulary (Formulary), over 1,000 drugs through the Exceptional Access Program list (non-Formulary), certain disease-specific programs as well as various professional pharmacy services received by eligible Ontarians.

The Programs include the Ontario Drug Benefit Program, the New Drug Funding Program and other programs relating to specific drugs and diseases. The Programs' mission is to improve patients' access to drugs, promote the appropriate use of drugs, ensure the sustainability of the health system through evidence-based decision-making, and strengthen Ontario's position as a public payer for drugs.

Eligibility for the Programs depends on criteria such as age, residence in a care setting, receipt of home care services through the Ministry's Home and Community Care Program, income level and others. Most of the eligible recipients are required to pay some portion of the cost of their prescription drugs in the form of co-payments, with or without deductibles.

Through the Exceptional Access Program, the Ministry also covers people eligible to receive Ontario Drug Benefit Program benefits who have been prescribed certain drugs for conditions of use that are not on the Formulary, through a case-by-case review process of determining if the request meets approved clinical criteria.

More than 4,260 pharmacies and other entities dispense drugs in Ontario; 97% of these are retail pharmacies. Seniors aged 65 and over living in their own home, and social assistance recipients (eligible recipients of Ontario Works and the Ontario Disability Support Program) received over 70% of the drug benefits. The other 30% went to residents of long-term-care homes and Homes for Special Care, recipients of home care services, and people enrolled in other programs.

In the 2016/17 fiscal year, the Programs' total expenditure was $5.9 billion (before rebates of $1.1 billion paid to the Ministry by drug manufacturers); the expenditure of the Ontario Drug Benefit Program alone amounted to $5.4 billion when co-payments and deductibles were included. **Figure 1** shows the breakdown of the Ontario Druge Benefit Program's expenditures by expenditure type.

In addition, the Ministry paid $83 million for professional pharmacy services, such as medication reviews and administration of the influenza vaccine.

Figure 1: Breakdown of Ontario Drug Benefit Program Expenditures, 2016/17

Source of data: Ministry of Health and Long-Term Care

Expenditure Type	Amount ($ million)
Drug costs	4,555
Markups	320
Dispensing fees*	1,204
Co-payments/deductibles	(689)
Total	**5,390**

* Includes $10 million compounding fees.

One of the Ministry's key responsibilities is to negotiate with drug manufacturers to achieve the best price possible for drugs covered by the Ontario Public Drug Programs. According to the most recent data available, the cost associated with brand-name drugs in 2015/16 was about two-thirds of total drug costs, and the cost associated with generic drugs that year accounted for the remaining one-third, under the Ontario Drug Benefit Program. (These drug costs are before rebates, co-payments and deductibles, but include mark-ups and dispensing fees paid to pharmacists.)

Prices of Brand-Name Drugs

For brand-name drugs, we noted that, over the last 10 years, the Ministry has taken initiatives, some of them with other Canadian provinces, to negotiate contracts with drug manufacturers that often resulted in receiving rebates, such as volume discounts, from the manufacturers. However, we noted the following:

- **Negotiations for brand-name drugs have led to significant rebates from drug manufacturers, but it is difficult to know whether the Ministry is obtaining the best possible value compared to other jurisdictions.** The Ministry received $1.1 billion in rebates from drug manufacturers in 2016/17. However, the Ministry could not determine how the confidential discounted prices of the brand-name drugs compared to prices paid by other countries, because the actual cost to payers outside of Canada is not disclosed by governments.
- **The processing of rebates for brand-name drugs is too slow and prone to error.** The Ministry took over six months on average to invoice drug manufacturers after the date when rebates could be recovered. Based on our sample of manufacturers' invoices for a 12-month period, and using the Province's average liquid reserve investment return for 2016/17, six months of lost interest income would equate to about $2.2 million. Further, the Ministry has made some errors, totalling over $16 million, in one case resulting in failure to invoice over $10 million. Although the Ministry eventually recovered the amount when the drug manufacturer informed it of its error, there is a risk that future errors may be left undiscovered.

Prices of Generic Drugs

While generic drugs accounted for about one-third of the total drug costs in 2015/16, they represent roughly two-thirds of the total volume of drug prescriptions claimed under the Ontario Drug Benefit Program. For certain generic drugs, we noted that the Ministry paid significantly higher prices than other countries as well as some Ontario hospitals. In particular:

- **Generic drug prices in Ontario have dropped significantly in the last 10 years, but the Province still pays more than foreign countries.**
  - Since 2006/07, the Ministry has negotiated lower prices for generic drugs through a number of reforms, including participation in the pan-Canadian Pharmaceutical Alliance (Alliance), which negotiates collectively on behalf of all provinces, territories and federal drug plans. The Alliance established two major initiatives: one reduced the Canadian prices of 18 highly used

generic drugs, and another introduced a tiered pricing framework for generic drugs entering the Canadian market on or after April 1, 2013. The Patented Medicine Prices Review Board (an independent quasi-judicial body with authority to regulate the prices of patented medicines sold in Canada) performed an analysis of the generic drugs included in these initiatives and found that the median prices of generic drugs from seven other countries were 28% below Canadian prices as of March 2015. Due to timing, the Board's analysis did not take into consideration the six highly used generic drugs that are priced at 15% of the reference brand price, effective April 2017.

- We compared a sample of 20 common generic drugs highly used under the Ontario Public Drug Programs with New Zealand prices (not part of the seven countries mentioned above). Our analysis shows that, in 2015/16, Ontario paid roughly $100 million (or about 70%) more for the same drugs of the same strengths than New Zealand. Unlike New Zealand, the Ministry did not tender competitive bids from drug manufacturers. However, we recognize that one consequence of New Zealand's purchasing approach is that there is a potential that when a supplier wins a tender and becomes the sole supplier of a drug, drug supply shortages may occur.
- **The Ministry paid significantly higher amounts for a number of commonly used generic drugs than some Ontario hospitals.** Hospitals purchase their drugs without going through the Ministry's Programs and pay for them out of their global budget (which is also funded by the Ministry). We compared a sample of common generic drugs that were used in both the community setting and the hospital setting, and found that hospitals were obtaining lower prices than the Ministry by $271 million (or 85%) in 2016/17. Although there is no guarantee that the Ministry could obtain the same prices for these same drugs, it indicates that opportunities exist for further price reductions on generic drugs. While the Ministry's payments to pharmacies for generic drugs are based on a pre-set percentage of the price of the equivalent patented drugs (called the Tiered Pricing Framework), Ontario hospitals typically use group purchasing organizations to tender competitive bids.

Exceptional Access Program

Another key responsibility of the Ministry is to ensure that eligible recipients have timely access to drugs when they need them. We found that the Ministry was able to fulfill this mandate for the majority of recipients, paying for their drug costs in a timely manner when their prescribed drugs are listed on the Formulary. We found as well that the process of listing brand-name drugs on the Formulary was based on clinical evidence and cost-effective analysis reviewed and recommended nationally by the Canadian Agency for Drugs and Technologies in Health, and the Ministry's own Committee to Evaluate Drugs, as well as through its negotiation processes and agreements with drug manufacturers.

However, delays are common with people who require exceptional approval for the cost of their prescribed drugs to be reimbursed on a case-by-case basis. In 2016/17, Ministry costs associated with drugs approved through the Exceptional Access Program were about $810 million for about 65,850 Ontarians who had utilized approximately 580 drugs from the list of over 1,000 drugs requiring case-by-case review to meet approved criteria. Our audit noted the following:

- **Many patients requesting exceptional drug coverage waited excessively.** The Ministry does not routinely track or publicly report the overall patient experience time for each application (defined as the time between when the Ministry receives the original request for

coverage and when it replies with its decision). Our audit found that overall patient experience times for many requests were too long. For example, in 2016/17, the overall time taken for the two most requested biologic drugs (over 7,800 total requests) was, on average, approximately seven to eight weeks.

- **The Ministry has acknowledged weaknesses in processing exceptional access requests since 2010.** The Ministry has long acknowledged the shortcomings in the largely manual system that processes requests, and proposed information-system solutions to address the delays in 2010. However, the initial proposals were not approved to proceed. In 2015, the Ministry proposed another new system to automate the processing of requests. Assuming the new system is complete in October 2018, as planned, it will have been eight years after the Ministry acknowledged the weaknesses in 2010. The Ministry estimated that the total project investment for the new system will have been approximately $14.4 million between 2016/17 and 2018/19.

Oversight of Payments to Pharmacies

In 2016/17, out of the more than 4,260 pharmacies, the Ministry inspected 286 pharmacies and recovered $9.1 million in inappropriate claims. However, our audit identified many other inappropriate claims and payments not inspected and/or recovered by the Ministry, and also noted that the Ministry delayed in acting on potential cases of fraud. Specifically:

- **The Ministry did not inspect and/or recover many payments for invalid claims, leading to about $3.9 million of inappropriate payments.**
  - In 2015/16, the Ministry paid approximately $952,000 for claims made in the name of deceased patients, but recovered only about $42,400 from pharmacies as a result of its inspections, resulting in about $910,000 not recovered.
  - In 2015/16, the Ministry paid about $3 million for claims that could not be reversed online by pharmacists, but recovered only about $900,000 from pharmacies through inspections, resulting in about $2.1 million not recovered.
  - During the 2016 calendar year, the Ministry paid about $922,000 for drugs received by patients whose age and gender did not meet the Ministry's criteria for the limited-use drugs, although in some cases the use of these drugs could be clinically appropriate. The Ministry did not know why the pharmacists were not verifying patients' age and gender before they claimed these drugs for their patients.
- **The Ministry did not refer several potentially fraudulent billings to the Ontario Provincial Police (OPP) in a timely manner.** The Ministry did not refer any cases to the OPP in both 2013/14 and 2014/15, but forwarded two and 13 cases for investigation in 2015/16 and 2016/17, respectively. Representatives from the OPP told us that eight of the 13 files were too old to investigate further. The Ministry referred these eight cases to the OPP between 3.5 and five years after their initial inspections, even though the Ministry suspected fraudulent billing in these cases. For example:
  - In all eight cases, the Ministry uncovered discrepancies between drug purchases and sales where the pharmacists could not explain why there were not sufficient drug inventory purchases to cover the sales at their pharmacies.
  - In three of the eight cases, either the physicians or patients denied that prescriptions were actually prescribed or received, after the Ministry sent letters and asked them to verify the existence of the claims.

MedsCheck Program

The Ministry does not know if the MedsCheck program ($550 million between 2008/09 and 2016/17) is effective. MedsChecks are consultations provided by a pharmacist to a patient who is taking three or more chronic medications (or meets certain other criteria), to review the patient's medication profile and identify and resolve drug-related problems. In 2007, when MedsCheck was established, the Ministry set as its objectives to promote healthier patient outcomes, quality of life and disease self-management, and to improve patient knowledge and understanding of, and adherence to, drug therapy. Yet the Ministry has not been able to demonstrate the value of the MedsCheck program and does not know if the MedsCheck program is effective in meeting the intended objectives, primarily due to lack of clinical data collected on patient outcomes.

Opioid Crisis

The Ministry spent $157 million through the Ontario Drug Benefit Program on opioids for about 720,000 recipients in 2016/17.

Despite numerous initiatives taken by the Ministry in dealing with the recent opioid crisis in the province, it does not have the critical information needed to inform its decisions in addressing the issues. Specifically, the Ministry does not know whether individuals overdosed or died from using prescription opioids or illicit opioids.

This report contains 10 recommendations, consisting of 20 actions, to address our audit findings.

Overall Conclusion

Our audit concluded that the Ministry of Health and Long-Term Care (Ministry) had effective systems and procedures in place to ensure that eligible recipients have timely access to Formulary drugs and that the process of listing drugs on the Formulary was based on clinical evidence and cost-effective analysis.

However, the Ministry was unable to ensure that brand-name drugs were funded at the best possible prices compared to other countries, because the actual drug costs to payers outside of Canada are not disclosed by governments. As well, the Ministry has not recently evaluated the suitability of other pricing models for determining generic drug pricing, such as tendering, as noted in other countries and Ontario hospitals that obtained lower prices, to reduce prices for generic drugs.

Further, we found that the Ministry's systems and procedures relating to reimbursing the cost of non-Formulary listed drugs under the Exceptional Access Program were not always timely. The Ministry handles these requests on a case-by-case basis using a manual system.

We also concluded that the Ministry's oversight of payments to pharmacies was not always in accordance with legislation and agreements, as evidenced by many invalid claims and payments to pharmacists that were not inspected and/or recovered from these pharmacies.

While the Ministry publicly reports on some program statistics and performance, it could be doing more to collect and analyze complete and accurate data for decision-making and program improvements, such as evaluating the MedsChecks program and assessing the effectiveness of its initiatives in addressing the recent opioid crisis in Ontario.

OVERALL MINISTRY RESPONSE

The Ministry appreciates the work of the Auditor General and welcomes the advice on how to improve the Ontario Public Drug Programs. We acknowledge the recommendations and are committed to ensuring they are reflected in our actions to strengthen accountability, oversight, value for money and operational excellence, including continuing to leverage information technology in our program delivery. The recommendations within this report, in a number of

instances, build upon work that had already been undertaken, including: expanding our capacity for negotiations and contract management; modernizing the Exceptional Access Program to ensure timeliness of access for drug funding; enhancing our audit and investigation ability to address inappropriate or potentially fraudulent claims; evaluating the impact of pharmacy services, such as the MedsCheck program; and our continuous efforts to improve the affordability of medicines for the province.

The area of pharmaceuticals is complex and ensuring appropriate access to necessary prescription medicines requires difficult, compassionate and evidence-based decisions, taking into account both clinical and cost-effectiveness considerations. Ontario has been at the forefront of the Canadian efforts to improve consistency of access, affordability, and decreased duplication of effort through the Canadian Agency for Drugs and Technologies in Health (CADTH) and the pan-Canadian Pharmaceutical Alliance (pCPA). These efforts have resulted in significant savings to Ontario and Canada as a whole.

The Ministry recognizes there are further opportunities to obtain value for the Ontario Public Drug Programs through continued aggressive negotiations with brand-name drug manufacturers, building on existing success, and learning from international experiences and how they might be adapted for the Canadian context. In addition to the observations made in this report by the Auditor General regarding Canadian generic pricing, the report also identifies that Canada has made the most significant gains with reducing its prices over the last seven-year period. Further reductions in prices were implemented in April 2017 that are projected to provide an additional $30 million savings annually to government. At the time of this response, the pCPA is currently in discussion with the generic industry in Canada with the purpose of continuing to bring greater value and further savings to the participating jurisdictions, including Ontario, while ensuring that we have a secure supply of these critical medicines.

Ontario is recognized as a leader in the delivery of public drug programs and will utilize the important learnings from this report to inform its work both in Ontario and within the larger pan-Canadian context.

2.0 Background

The Ministry of Health and Long-Term Care (Ministry) is responsible for administering the Ontario Public Drug Programs (Programs), which provide drug coverage to eligible Ontarians for over 4,400 drug products listed on the Ontario Drug Benefit Formulary (Formulary) and also through other programs. Non-Formulary drugs may be considered for coverage on a case-by-case basis through the Exceptional Access Program. More than 4,260 pharmacies and other entities dispense drugs in Ontario; 97% of these are retail pharmacies. The Programs' mission is to improve patients' access to drugs, promote the appropriate use of drugs, ensure sustainability of the health system through evidence-based decision-making, and strengthen Ontario's position as a public payer for drugs. About four million Ontarians receive prescription drugs through the Programs each year.

The *Ontario Drug Benefit Act* (Act) gives the government the authority to designate an Executive Officer to administer the Programs. The Executive Officer is the Assistant Deputy Minister of the Ministry's Ontario Public Drug Programs Division. Through this Act, the Executive Officer has the power, among other things, to set eligibility criteria for the Programs, keep and maintain the Formulary, and negotiate pricing agreements with drug manufacturers. In the fiscal year ending March 31, 2017, the Ministry had about 128 staff in its Ontario Public Drug Programs Division for a total cost of about $25.8 million to administer the Programs.

2.1 The Ontario Public Drug Programs

The publicly funded drug system in Ontario is complex and involves various players and activities. The following sections explain three key areas:

- eligible recipients of the Ontario Public Drug Programs (**Section 2.1.1**);
- the role of drug manufacturers with regard to the Ontario Public Drug Programs (**Section 2.1.2**); and
- Ministry payments to pharmacies and other dispensers (**Section 2.1.3**).

2.1.1 Eligible Recipients of the Ontario Public Drug Programs

Specific groups of Ontarians are eligible for public drug coverage that the Province provides to subsidize their purchase of prescription drugs. The eligibility criteria for coverage are set out in the *Ontario Drug Benefit Act*, its regulations and Ministry policy. In 2016/17 the Ontario Public Drug Programs had a total expenditure of $5.9 billion (before aggregate rebates from drug manufacturers—governments and manufacturers worldwide do not reveal rebates by individual drug or manufacturer). **Figure 2** breaks down the total expenditure by types of recipients, and shows that seniors aged 65 years and over living in their own home received over half of the drug benefits.

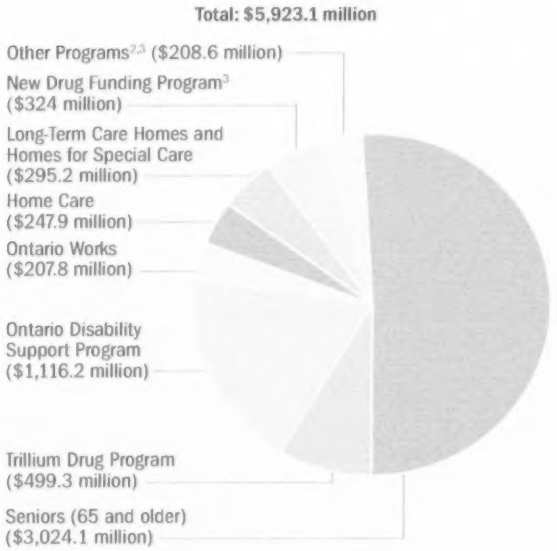
Ontario Public Drug Programs

Eligible Ontarians may receive their drug coverage through any of the following programs:

- The *Ontario Drug Benefit Program* is the largest of the Ontario Public Drug Programs ($5.4 billion, or 92% of total expenditures, in 2016/17). It provides coverage for prescription drugs to Ontario seniors (those 65 and older); social assistance recipients (Ontario Works and Ontario Disability Support Program, overseen by the Ministry of Community and Social Services); persons receiving home care services through the Ministry's Home and Community Care Program; Ontarians with high drug costs relative to their household income (through the Trillium Drug Program, discussed next); and residents of Homes for Special Care and long-term-care homes. Recipients are required to pay a portion of the cost of their drugs in the form of deductibles and/or co-payments. **Figure 3** summarizes the amount of deductibles and co-payments by eligibility category. The total of these deductibles and co-payments was $689 million, as shown in **Figure 1**.
- The *Trillium Drug Program* ($499 million in 2016/17) is included in the *Ontario Drug Benefit Program*. It provides assistance to people who are under 65 years old and have prescription drug costs that are high relative to their income.

Figure 2: Ontario Public Drug Programs Expenditures[1] by Types of Recipients, 2016/17

Source of data: Ministry of Health and Long-Term Care


Total: $5,923.1 million
Other Programs[2,3] ($208.6 million)
New Drug Funding Program[3] ($324 million)
Long-Term Care Homes and Homes for Special Care ($295.2 million)
Home Care ($247.9 million)
Ontario Works ($207.8 million)
Ontario Disability Support Program ($1,116.2 million)
Trillium Drug Program ($499.3 million)
Seniors (65 and older) ($3,024.1 million)

1. Amount before rebate received by the Ministry.
2. Other Programs include the Special Drugs Program, Inherited Metabolic Disease Program, Respiratory Syncytial Program and Visudyne Program.
3. All programs shown except for the New Drug Funding Program and the category Other Programs come under the Ontario Drug Benefit Program, whose total cost is $5.4 billion.

Figure 3: Deductible Amounts and Co-payments, by Category of Recipient Eligibility, Effective August 1, 2016
Source of data: Ministry of Health and Long-Term Care

Eligible Category	Deductible(s) ($)	Co-Payments ($)
Person aged 65 or older		
Single senior, income greater than $19,300	100.00	6.11[1]/2.83[2]
Senior couple, income greater than $32,300	100.00 each	6.11[1]/2.83[2]
Single senior, income less than $19,300[3]	–	2.00
Senior couple, income less than $32,300[3]	–	2.00
Other		
Resident of long-term-care home	–	2.00
Resident of a Home for Special Care	–	2.00
Recipient of professional home care services	–	2.00
Recipient of benefits from Ontario Works or Ontario Disability Support Program	–	2.00
Recipient of Trillium Drug Program	Income-based	2.00

1. Retail pharmacy.
2. Hospital pharmacy (the drug product is supplied in a pharmacy operated in a hospital under the *Public Hospitals Act*).
3. Seniors with low income may apply for the Seniors' Copayment Program to have the deductible removed and pay up to $2.00 co-payment per prescription.

- The *New Drug Funding Program* ($324 million in 2016/17) covers the costs, through Cancer Care Ontario, of certain injectable (intravenous) cancer drug therapies administered in specific out-patient settings, such as community hospitals and regional cancer centres. Refer to **Section 3.02**, "Cancer Treatment Services," in this Annual Report for further details.
- The *Special Drugs Program*, the *Inherited Metabolic Diseases Program*, the *Respiratory Syncytial Virus Program* (for a respiratory infection in infants) and the *Visudyne Program* (for age-related macular degeneration, an eye condition) cost a total of $209 million in 2016/17. The Special Drugs Program provides funding to cover the costs of about 300 drugs and nutritional products provided to hospital out-patients for the treatment of specific health conditions. The latter three programs provide assistance to people who have been diagnosed with specific diseases and/or conditions.

Jurisdictions across Canada each have drug programs with differing eligibility requirements. **Appendix 1** describes the main drug programs in selected Canadian provinces.

Requests for Exceptional Access

An eligible patient under the Ontario Drug Benefit Program who requires a drug that is not listed on the Formulary may be able to obtain the drug through the Ministry's Exceptional Access Program. A physician or nurse practitioner requests the drug on the patient's behalf. Ministry staff review the request and determine eligibility on a case-by-case basis using Ministry-specified, evidence-based criteria. (This program is discussed in **Section 4.3**.) The Ministry provides access to these non-Formulary drugs in certain circumstances where Formulary drugs were ineffective or not tolerated, or no alternative was available on the Formulary.

The Ministry may choose to fund drugs on a restricted basis through the Exceptional Access Program, and not as a general benefit through the Formulary, because these drugs are more costly and restricting access to a criteria-based process allows costs to be contained. In some cases, the drugs may have limited evidence to support broad use; therefore, it is important to make sure that the patients

receiving these drugs actually need them. Similar special access programs are found in drug plans in other provinces and countries.

In 2016/17, Ministry costs associated with drugs approved through the Exceptional Access Program were about $810 million for about 65,850 Ontarians who had utilized approximately 580 drugs from the list of over 1,000 drugs requiring case-by-case review to meet approved criteria.

Ontario Public Drug Programs Expenditures and Statistics

The number of drug recipients covered through the Ontario Public Drug Programs increased by almost 30% between 2006/07 and 2016/17, from 3.1 million to 4.0 million. The Programs' drug expenditures grew at a quicker pace. **Figure 4** shows the 11-year trend of the annual total Programs' expenditures from 2006/07, when the Ministry began negotiating rebates on brand-name (that is, patented) drugs, to 2016/17. Total expenditures before rebates increased during these years by 60%, from $3.7 billion to $5.9 billion. This increase is due to many factors, including the increased use of newer and more expensive drugs, the aging population, the growing number of recipients, and the use of drugs that come out of new areas of research into new diseases.

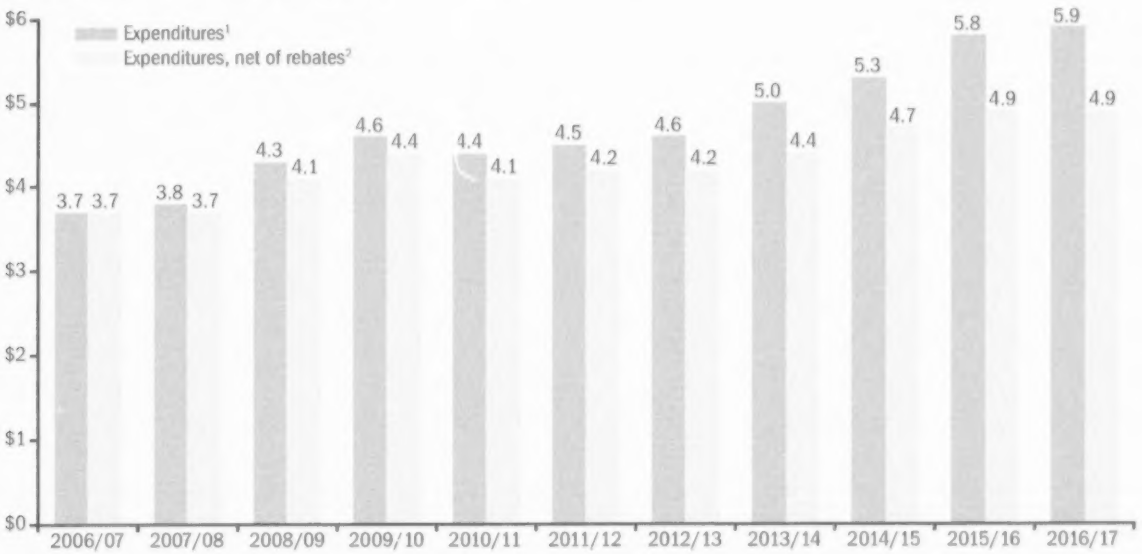
Figure 4 also shows the 11-year trend of expenditures net of the negotiated rebates. The *net of rebates* expenditures increased by 32% from $3.7 billion to $4.9 billion, which was well below the 60% increase in total expenditures *before rebates*.

The Ministry reports annually on its program statistics to help further clarify the picture of the Province's eligible recipients. For example:

- **Appendix 2** lists the top 10 therapeutic drug classes by drug costs in 2015/16.
- **Appendix 3** lists the top 10 therapeutic drug classes by number of users in 2015/16.
- **Appendix 4** lists the top 10 drugs by their cost to the Programs in 2015/16.

Figure 4: Ontario Public Drug Programs Expenditures, 2006/07–2016/17 ($ billion)

Source of data: Ministry of Health and Long-Term Care



1. Amounts include expenditures from the Ontario Drug Benefit Program, New Drug Funding Program, Special Drugs Program, Inherited Metabolic Disease Program, Respiratory Syncytial Program and Visudyne Program. These amounts include drug costs, markups, dispensing and compounding fees, and are net of recipients' co-payments and deductibles.
2. Drug manufacturers rebate to the Ministry a portion of the total price based on agreements they negotiate with the Ministry. Rebates began to increase in 2010/11 after the Pan-Canadian Pharmaceutical Alliance was established to leverage the collective purchasing power of the provinces and territories in negotiations with drug manufacturers.

2.1.2 The Role of Drug Manufacturers in the Ontario Public Drug Programs

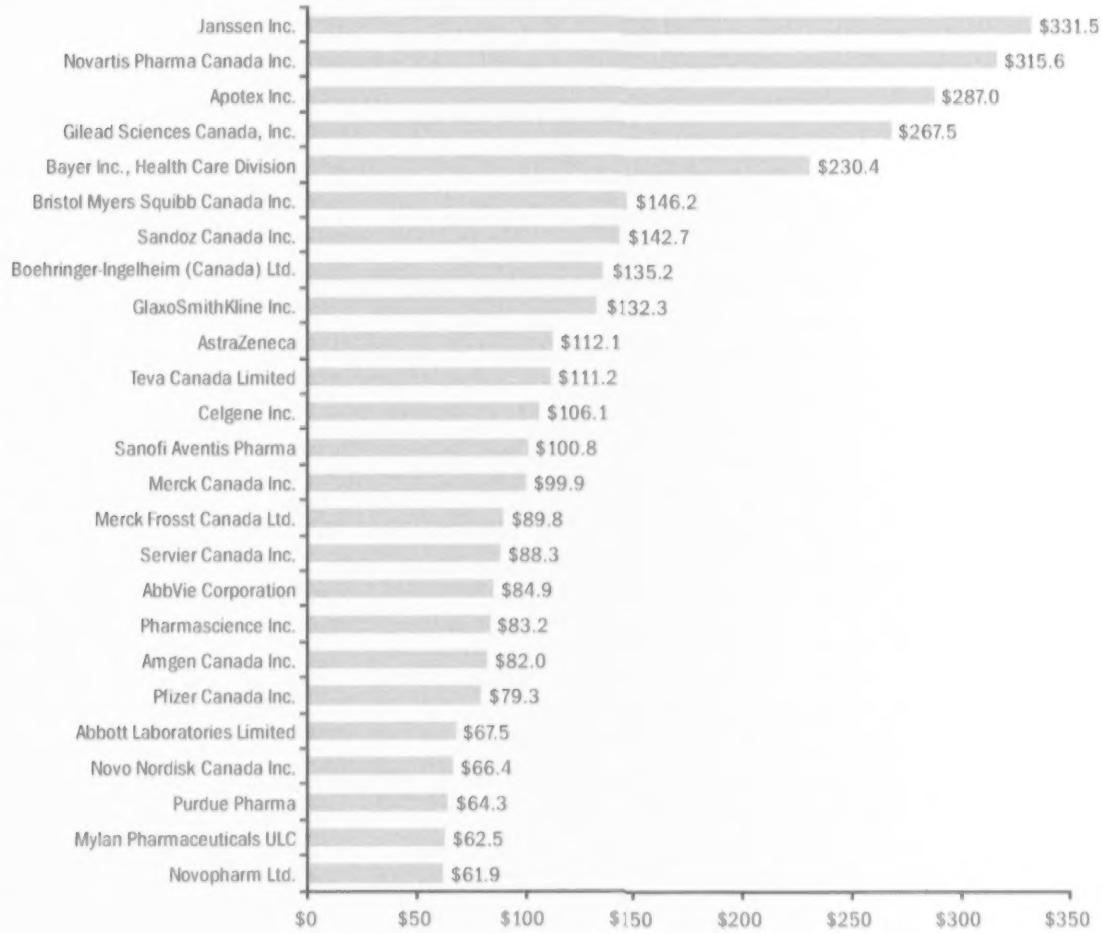
Drug Manufacturers

Drug manufacturers produce and sell drugs to purchasers in Ontario. Manufacturers that develop new medicines typically obtain Canadian patents on those drugs and sell them under a brand name. A patent provides the patent holder with exclusive rights for approximately 20 years from the date of filing. Following the expiry of relevant patents on a drug, competing firms may enter the market to sell copies of the drug with the same active ingredient, known as generic drugs. These generic drugs are approved by Health Canada for sale, and most are also approved by Health Canada as chemically equivalent to the brand-name drug.

Figure 5 shows a breakdown of the top 25 drug manufacturers by drug cost paid by the Ontario Drug Benefit Program for 2016/17.

Figure 5: Top 25 Drug Manufacturers by Drug Cost[1] Paid by Ontario Drug Benefit Program,[2] 2016/17 ($ million)

Source of data: Ministry of Health and Long-Term Care



1. Drug costs are based on the publicly available list prices and may not reflect the net prices paid by the Ministry of Health and Long-Term Care under product listing agreements with manufacturers.
2. Figures also include claims submitted for the Special Drugs Program, except those submitted manually.

Note: Manufacturer names are based on the most recent product ownership information submitted by the manufacturer. This information is not intended to reflect ownership changes due to corporate restructuring, mergers and acquisitions, or ownership changes of drug products not submitted to the Ministry.

Pricing of Drugs under the Ontario Drug Benefit Program

One of the factors involved in the decision to fund a drug is its affordability. This includes consideration of the drug price, and the Ministry must determine how much it reimburses pharmacies for the drugs. The Ministry negotiates drug prices with the manufacturers, but it does not buy the drugs directly from the manufacturers. Rather, retail pharmacies purchase drugs through wholesalers, or directly from the manufacturers, and the Ministry pays the pharmacies for the drugs dispensed. The Ministry publishes the price for reimbursement to pharmacies in the Formulary (known as the Formulary price).

Pricing of drugs differs depending on whether the drug is a brand-name (discussed in **Section 4.1**) or a generic drug (discussed in **Section 4.2**).

Brand-Name Drug Prices and Rebates from the Drug Manufacturers

On a quarterly or annual basis, the drug manufacturers rebate to the Ministry a portion of the total price according to agreements they negotiate with the Ministry. These rebates are usually based on volume sold. The net cost (total paid minus rebate) of a drug is confidential and not reported to the public, as the Ministry is contractually barred from disclosing these rebates. (We discuss this further in **Section 4.1**.)

Over the last 10 years, the Ministry has taken a number of initiatives on brand-name drugs. The 2006 reforms to the Ontario Drug Benefit Program provided the Executive Officer of the Program with the ability to negotiate confidential product listing agreements with drug manufacturers. Product listing agreements can incorporate different parameters, such as volume discounts (rebates) where a confidential price is negotiated; reduced Formulary prices; risk sharing with expenditure caps (where the Ministry pays for no more than an agreed-upon volume and the drug manufacturer pays the rest); the drug manufacturer's commitment to promote appropriate use; and the requirement to collect outcome data for future negotiations.

In 2010, the pan-Canadian Pharmaceutical Alliance (Alliance), originally named the pan-Canadian Pricing Alliance, was established to leverage the collective purchasing power of the provinces and territories in negotiations with drug manufacturers. The Alliance is made up of all 13 provincial and territorial jurisdictions and federal drug plans. Together, they negotiate lower prices than one single jurisdiction could on its own.

Patented Medicine Prices Review Board

The Patented Medicine Prices Review Board (Board) is an independent quasi-judicial body that protects the interests of Canadian consumers by ensuring that the prices of patented medicines sold in Canada are not excessive. It does this by reviewing the prices that patentees charge for each individual patented drug product in Canadian markets.

Although the Board has no authority to regulate the prices of generic drugs because most of them do not have a patent, it does, however, conduct some analyses and comparisons of the prices of generic drugs in Canada and other countries (discussed in **Section 4.2**).

Generic Drug Prices

Starting with the 2006 reforms to the Ontario Drug Benefit Program, the Ministry has introduced a number of regulatory changes to reduce the prices of generic drugs it reimburses in Ontario. The following explains pricing for generic drugs in Ontario before and after 2006:

Before 2006: The first generic drug approved for reimbursement was priced at 70% of the reference brand price (that is, the price of the brand-name drug it substitutes for). Generics that were approved as substitutes for the same brand-name drug and entered the market later were priced at 63% of the brand price.

2006 reforms: The price of generic drugs was reduced to 50% of the reference brand price, with some exceptions.

2010 reforms: Generic drug prices were further reduced to 25% of the reference brand price for solid drugs and 35% for liquid drugs (with some exceptions). Other changes benefited private-sector purchasers, such as patients and insurers, by linking the prices they paid for generic drugs to the prices listed in the Formulary.

2013 onwards: The Ministry continued to lower the prices of generic drugs through participating in the pan-Canadian Pharmaceutical Alliance. The Alliance established two major initiatives for generic drugs: reducing the prices of commonly used generic drugs and introducing the Tiered Pricing Framework for new generic drugs. These are both explained in **Section 4.2**.

2.1.3 Ministry Payments to Pharmacies and Other Dispensers

Ministry Payments for Drugs

When a patient receives a drug and/or service covered by the Ontario Drug Benefit Program from a pharmacy, the Ministry reimburses the pharmacy based on the valid claims submitted. In most cases, pharmacies must submit their claims online (through the Health Network System) to the Ministry, and payments are scheduled regularly. For each prescription drug dispensed, the Ministry payment to the pharmacies consists of four components (see **Figure 6** for the price and detailed descriptions).

Ministry's Oversight of Payments to Pharmacies

The Ministry has the mandate to conduct post-payment inspections for any of the over 4,260 entities that dispense drugs. Retail pharmacies, including those that serve long-term-care homes and Homes for Special Care, represent 97% (or 4,135) of these entities. The remainder are dispensing physicians, hospital out-patient dispensaries, and allergy product suppliers.

While the Ministry has oversight responsibility over payments made to pharmacies, the Ontario College of Pharmacists, the regulator of the profession of pharmacy in Ontario, has responsibility over safety, professional practices and accreditation. (Inspections are further discussed in **Sections 4.4** and **4.5**.)

Ministry Payments for MedsCheck and Other Professional Services

In addition to the $5.9 billion (2016/17) it spends on drugs under the Programs, the Ministry also pays for services pharmacists perform for eligible recipients. In 2016/17, the Ministry spent $83 million for professional pharmacy services, of which the MedsCheck program represented $70 million. The MedsCheck program is available to all Ontarians with a valid health card, who are taking three or more chronic medications or who meet other program criteria. (MedsChecks are further discussed in **Section 4.6**.)

Most Canadian provinces also fund similar medication review programs. We compare these programs in **Appendix 5**.

2.2 Events Subsequent to Our Fieldwork

Since we completed our fieldwork, the Ministry has announced changes and updates to two main areas of interest, as follows. Given the timing of these announcements, they were not included in the scope of this audit.

OHIP+

In the 2017 Budget, the Province announced that starting January 1, 2018, children and youth aged 24 years and under who are OHIP insured will be able to get eligible prescription medications at no cost. Coverage will be automatic, with no upfront

Figure 6: Components of Ministry Payments to Pharmacies for Drugs Dispensed under the Ontario Drug Benefit Program

Source of data: Ministry of Health and Long-Term Care

Ministry Payment	Price	Description
Add # 1, 2 and 3		
1. Drug benefit price	• Prices are listed in the Formulary. The Formulary is the listing that includes all drugs covered for funding under the Ontario Drug Benefit Program, except for drugs funded under the Exceptional Access Program.	• For brand-name drugs, the prices are set based on manufacturer submissions and any negotiations between the Ministry of Health and Long-Term Care and the drug manufacturers. These are stipulated under various product listing agreements.
2. Mark-up	• 8% of the drug benefit price; or • 6% of the drug benefit price for claims with drug costs equal to or greater than $1,000.	• Mark-up costs are intended to cover distribution and inventory costs incurred by pharmacies. • Mark-up costs are set by regulation.
3. Dispensing fee and any applicable compounding fee	• For individuals eligible under the Ontario Drug Benefit Program, the dispensing fee is set at $8.83 for each claim filled. • The dispensing fee can be up to $13.25 where there are few or no pharmacies nearby (e.g., rural areas). • The dispensing fees for drugs not covered by the Ontario Drug Benefit Program are set by the individual pharmacy, and not by regulation.	• Dispensing fees cover services such as general operating costs (e.g., employee salaries and rent), stocking medication, maintaining medical records and sharing them with the physician, and counselling patients on their drug treatment. • Dispensing fees covered under Ontario Drug Benefits Program are prescribed by regulation. • Compound fees are paid at an established rate and by the time spent mixing and preparing the drug.
Deduct # 4		
4. Deductible or co-payment	**Deductibles** • For seniors over the age of 65, $0 or $100 per person per year depending on household income. • For Trillium Drug Program recipients, the deductible is income-based. **Co-payments** • $2.00 to $6.11 per prescription depending on household income and eligible categories.	• Paid by recipients to the pharmacies where the drugs were dispensed. • Deductibles and co-payments are set by regulation.

costs. As what is called OHIP+ creates a new eligibility stream under the Ontario Drug Benefit Program, coverage will include all Ontario Drug Benefit Program benefits, including the cost of the drug products that are currently available on the Formulary. The Province estimated that the incremental investment needed to implement OHIP+ will be about $465 million annually.

Opioids

In August 2017, the Province announced $222 million in new investments over three years to enhance Ontario's Strategy to Prevent Opioid Addiction and Overdose. Among other things, the new investments include an expansion of the supply of an overdose-reversal drug through emergency departments, and an expansion of harm-reduction services, such as needle exchange programs and supervised injection sites. We discuss opioid overdoses in **Section 4.8**.

3.0 Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Health and Long-Term Care (Ministry) had effective systems and procedures in place to ensure that:

- eligible recipients have timely access to appropriate, up-to-date and cost-effective drugs and pharmacy services;
- payments to pharmacies and other dispensers are in accordance with legislation and agreements;
- drug pricing and procurements in the public sector are reviewed to ensure cost savings are maximized in the province; and
- accurate and complete data on the effectiveness of the Ministry's drug programs is collected, analyzed, used for decision-making and program improvements, and publicly reported, for the benefit of Ontarians.

In planning for our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 6** for criteria). These criteria were established based on a review of applicable legislation, policies and procedures, internal and external studies, and best practices. Senior Ministry management reviewed and agreed with the suitability of our objectives and associated criteria.

We conducted our audit between December 2016 and June 2017. We obtained written representation from the Ministry management that, effective November 14, 2017, it has provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

Our audit work was conducted at the Ministry's Ontario Public Drug Programs Division in Toronto. In conducting our audit, we reviewed relevant documents, analyzed information, interviewed appropriate Ministry staff, and reviewed relevant research from Ontario and other Canadian provinces, as well as jurisdictions in other countries. The majority of our file review went back three to five years, with some trend analysis going back as far as 10 years.

We also reviewed data from the Ministry's Health Network System, which contains claims paid to pharmacies for dispensed drugs and professional pharmacy services in Ontario. As part of the annual audit of financial statements performed by our Office on the Public Accounts of Ontario, we tested key application controls and information technology general controls in the Ministry's Health Network System. We considered the results from that annual financial-statement audit in determining the scope of this value-for-money audit.

We met with a representative of the Ontario Drug Policy Research Network, which is composed of researchers from across Ontario and guides and informs policy makers in making their decisions, and we relied on some of the data analyses it performed.

In addition, we talked to representatives from stakeholder groups, including the Ontario College of Pharmacists, the Ontario Pharmacists Association, and the Ontario Hospital Association. We met with representatives from the pan-Canadian Pharmaceutical Alliance, which collectively negotiates on behalf of all Canadian provinces, territories and the federal drug plans, to gain an understanding of how drug prices are negotiated with drug manufacturers.

In an effort to better understand the drug evaluation process, we attended a Committee to Evaluate Drugs meeting to observe the process of how new drug products are recommended to be funded in Ontario. We talked to the Patented Medicine Prices Review Board to understand how the price of brand-name drugs is regulated in Canada, and we spoke with the group-purchasing organizations that procure drugs on behalf of most hospitals in Ontario. We contacted a sample of hospitals and obtained select generic drug prices to compare to the Ministry's Formulary prices. In addition, we

engaged an expert in pharmaceutical policy with knowledge of drug pricing to advise us.

We attended a site visit to a pharmacy that the Ministry was inspecting as part of its inspection process to gain an understanding of how claims are selected for inspection and how inspectors conduct their inspections. We also met with the Health Fraud Unit of the Ontario Provincial Police to discuss their concerns over how pharmacies are referred to them for investigation of fraudulent billing activity.

We did not rely on the work of internal audit, as it has not conducted any recent work related to the Ontario Public Drug Programs.

We did not compare the prices of brand-name drugs paid by Ontario to other jurisdictions, as the net-of-rebate drug prices in other jurisdictions are confidential and not available for our review. Similarly, we did not compare the prices of brand-name drugs paid by Ontario to the amount paid by hospitals, as the net-of-rebate drug prices of hospitals are bound by the confidentiality agreements between the group purchasing organizations and drug manufacturers.

Finally, we considered the relevant issues reported in our 2007 audit related to the then Ontario Drug Programs Branch (see the section entitled "Drug Programs Activity" in our 2007 Annual Report) and incorporated them into our audit work.

4.0 Detailed Audit Observations

4.1 Rebates on Brand-Name Drugs Have Increased but Price Comparisons Are Difficult

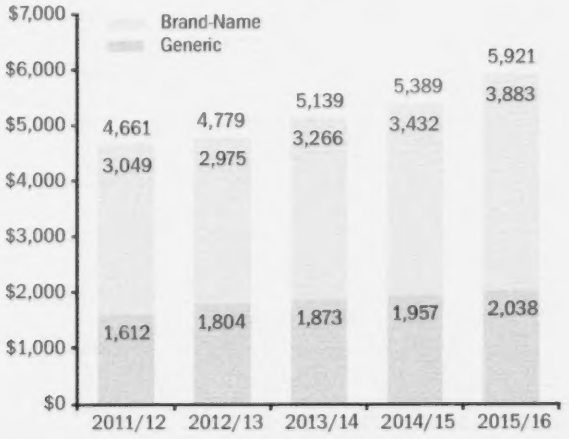
4.1.1 Pricing Reform Has Led to Significant Rebates but Price Comparison to Other Jurisdictions Is Limited

In 2015/16, of the $5.9 billion total expenditures of the Ontario Public Drug Programs (Programs), $3.9 billion, or 66%, was for brand-name drugs, even though they accounted for only one-third of total claims by volume. **Figure 7** shows the breakdown of expenditures between brand-name and generic drugs from 2011/12 to 2015/16.

Over the last 10 years, the Ministry has taken a number of initiatives on brand-name drugs. Most notably, the pricing reforms in 2006 contributed to the Ministry obtaining significant rebates on their

Figure 7: Breakdown of Expenditures* between Brand-Name and Generic Drugs, 2011/12–2015/16 ($ million)

Source of data: Ministry of Health and Long-Term Care



* Amounts include expenditures from the Ontario Drug Benefit Program, and include drug cost, markups, dispensing and compounding fees, without netting out recipient co-payments and deductibles. Drug costs are based on the manufacturers' publicly available list price and do not reflect the net prices paid by the Ministry of Health and Long-Term Care after rebates under the product listing agreements with the manufacturers.

price. Between 2006/07 and 2016/17, these rebates grew from $31 million to $1.1 billion. For 2016/17, the total rebate received is close to 30% of the total expenditures for brand-name drugs.

From 2009/10 to 2015/16, a total of 188 product listing agreements have been established with drug manufacturers for drugs listed on the Formulary, and about half of these agreements (96) have rebates associated with them. The rebates negotiated relate to 781 drugs in various strengths and dosages, which include 1,417 out of the approximately 4,400 individual products listed on the Formulary. Many of the drugs that do not have rebates associated with them were added to the Formulary earlier than 2006/07, before the Ministry had the authority to negotiate rebates with drug manufacturers. The Ministry will have to continue to monitor the trends in development of high-cost breakthrough drugs and in rebates to ensure that its negotiating strategy produces cost-effective results for Ontarians as the structure of the drug market evolves.

Relevant Price Comparisons to Other Jurisdictions Is Limited Because of Confidentiality Agreements

Ontario's rebates began to grow significantly in 2012/13 after the pan-Canadian Pharmaceutical Alliance (Alliance) became more involved in negotiating collectively. As mentioned earlier, brand-name drugs are the main cost drivers in Ontario, making up 66% of all drug costs funded under the Ontario Drug Benefit Program. However, despite these rebates, it is unknown whether the Ministry is obtaining reasonable prices for brand-name drugs compared to other countries, due to the contractual obligation that prevents the negotiating parties from disclosing the net cost of a drug. Negotiating confidential rebates on brand-name drugs is a common practice internationally, and therefore there is no benchmark to compare net prices for brand-name drugs across the world.

The Patented Medicine Prices Review Board (Board; see **Section 2.1.2**) is currently updating its guidelines on how the prices of brand-name drugs are regulated to ensure that prices are not excessive. Part of the reason for the update is the growing discrepancy between public list prices and lower actual market prices due to the increased use of confidential discounts and rebates globally. One of the proposed changes to the regulations includes requiring patent holders to provide the Board with information related to rebates and discounts they give other purchasers in Canada. The Board would keep this information confidential, but would use it to better evaluate whether the prices of patented drugs in Canada are excessive. These changes are expected in 2019.

4.1.2 Processing of Drug Rebates Is Too Slow and Prone to Error

While the amount of rebates on brand-name drugs continues to grow, room for improvement exists in the administrative process to ensure the timely and accurate processing of rebates due from drug manufacturers. On average, it takes the Ministry over six months from when rebates are due to invoice drug manufacturers. In one case, it took the Ministry close to nine months to invoice the manufacturers concerned. Given the significant dollar value of rebates ($1.1 billion in 2016/17), we would expect the Ministry to be efficient in processing rebates. Based on a sample of nine manufacturers' invoices representing about $700 million in rebates for a 12-month period, and using the Province's average liquid reserve investment return for 2016/17, six months of lost interest income would equate to about $2.2 million.

Further, we noted that the Ministry's current process of manually calculating rebates for over 90 drug manufacturers and over 1,400 unique drug products is prone to error. We noted that the Ministry has made some errors, totalling over $16 million, in calculating the rebates over the five years from 2012/13 to 2016/17. In one case, a drug manufacturer brought to the Ministry's attention that over $10.2 million had not been invoiced.

Subsequently, the Ministry recovered the amount from the drug manufacturer. When we asked the Ministry for its formal policies and procedures surrounding the rebate process, it informed us that it was in the process of making improvements and formally documenting its processes.

Lastly, while the amount of confidential rebates received from drug manufacturers has grown substantially over the last 10 years, the resources allocated to handle the administration of these rebates have remained comparatively small. In addition, the Ministry informed us that the size, number and complexity of agreements have significantly affected the processing of rebates in recent years. While some rebates are relatively simple (such as volume discount), some may involve complex risk-sharing arrangements that may involve multiple manufacturers and timeframes. As a result, some delays are due to manufacturers disputing amounts and/or requesting data from the Ministry to recalculate the rebate independently.

RECOMMENDATION 1

To help ensure timeliness and accuracy of the rebates received from drug manufacturers, we recommend that the Ministry of Health and Long-Term Care:

- establish and monitor adherence to formal policies and procedures governing the rebate process; and
- review rebate processing data to identify and address areas of delay to ensure greater efficiency, including better allocation of staff resources.

MINISTRY RESPONSE

The Ministry supports this recommendation, as it is important to provide operational excellence and efficiencies. The Ministry recognizes that the value and complexities of the rebates has risen in recent years and is dedicating additional resources (such as staffing) to formalize procedures and to ensure timely invoicing and remittance. In 2016/17, additional staff were added and a dedicated team created to provide greater capacity to support the negotiations and contract management, including reconciliation activities. The reconciliation process is also under review to identify opportunities for streamlining and/or automation to reduce the time to complete the process. As changes are implemented, policy and procedure documentation will be updated.

4.2 Generic Drug Prices Have Dropped Significantly but Ontario Still Pays More than Other Public Payers

4.2.1 Despite Significant Reforms Generic Drug Prices Are Still Higher in Ontario and Nationally than in Other Countries

While the total cost of generic drugs (about $2 billion, **Figure 7**) represented about one-third of the total drug cost in 2015/16, the number of claims for generic drugs accounted for a bigger volume—roughly two-thirds of total claims under the Ontario Drug Benefit Program.

Our audit found that the Ministry has made significant progress in reducing the prices of generic drugs in the last 10 years; however, there is further room for price reductions. Prices of generic drugs continue to be higher in Ontario and nationally than in seven other reference countries (France, Germany, Italy, Sweden, Switzerland, the United Kingdom and the United States). This was especially true for generic drugs that entered through the pan-Canadian Tiered Pricing Framework (explained in the following sections). As of March 2015, the median foreign prices for these drugs were still 28% below Canadian prices, despite the impact of a weaker Canadian dollar. We observed that a contributing factor to the difference between the Ontario Public Drug Programs, like all Canadian public drug programs, and some other countries was the lack of a competitive tendering process for generic drugs in Ontario.

In **Section 2.1.2**, we described the regulatory changes that have steadily reduced the prices of generic drugs the Ministry reimburses, beginning in 2006. From 2013 onwards, the Ministry continued to lower the prices of generic drugs through participating in the pan-Canadian Pharmaceutical Alliance (Alliance). The Alliance established two major initiatives for generic drugs: reducing the prices of highly used generic drugs and introducing the Tiered Pricing Framework for new generic drugs; we describe both in the following sections.

Price Initiative for Highly Used Generic Drugs

In April 2013, the Ministry and its Canadian partners lowered the prices of six highly used generic drugs to 18% of the reference brand price through the Pan-Canadian Generic Value Price Initiative (Initiative). The Initiative is a joint approach that leverages the combined purchasing power of all provinces and territories (with the exception of Quebec) to obtain lower prices for generic drugs. Before the Initiative came into operation, provinces and territories were paying between 25% and 40% of the reference brand price for these generic drugs.

From April 2014 to April 2016, the Ministry lowered the price of an additional 12 drugs, which brought the total number of highly used drugs priced at 18% of the reference brand price from six up to 18. In April 2017, the Ministry entered into a one-year bridging agreement for the Initiative with the Canadian Generic Pharmaceutical Association to allow time to evaluate the Initiative and determine next steps. The Canadian Generic Pharmaceutical Association represents a group of drug manufacturers that specialize in the production of generic drugs. The bridging period further reduced the prices of six of the 18 highly used drugs from 18% to 15% of the reference brand price.

While the Ministry indicated that the Initiative resulted in substantial savings, we found that there was room for still lower prices for the 18 highly used generic drugs priced at 18% of the reference brand price. An analysis performed by the Patented Medicine Prices Review Board (Board) in 2016 showed that Canadian prices for these drugs dropped 65% between 2007 and 2015, but as of March 2015 average and median prices in the seven reference countries were still 7% and 28% below Canadian prices, respectively. Due to timing, the Board's analysis did not take into consideration the six highly used generic drugs that are now priced at 15% of the reference brand price.

At the time of this audit, the Ministry was negotiating the Initiative (and the Tiered Pricing Framework discussed in the following section) with the Canadian Generic Pharmaceutical Association. Because the negotiations were ongoing, the Ministry could not disclose any additional details.

Tiered Pricing Framework for New Generic Drugs

In November 2014, the Ministry published an invitation to comment on a proposal made by the Canadian Generic Pharmaceutical Association to establish a tiered pricing framework for generic drugs other than the specified highly used drugs. The pricing framework at the time required generic prices to be 25% of the reference brand price for solid drugs and 35% for liquid drugs, with some exceptions. The proposed framework works as follows and is summarized in **Figure 8**:

- Where there are no other generic drugs listed in the Formulary and/or available on the Canadian market (single source generic drug), the price would be set at 85% of the reference brand price, or 75% if Ontario or another Canadian province or territory has a product listing agreement with the reference brand drug.
- Where there are only two generic products available (dual source generic drug) on the Canadian market, the price would be set at 50% of the reference brand price.
- If there are three or more generic drugs, the previous 25% and 35% price rules apply.

The Ministry, as part of the pan-Canadian Pharmaceutical Alliance Generics Agreement, implemented the Tiered Pricing Framework and amended a regulation of the *Ontario Drug Benefit*

Figure 8: The Ministry of Health and Long-Term Care's Tiered-Pricing Framework for Generic Drugs, Effective April 1, 2013

Source of data: Ministry of Health and Long-Term Care

# of Available Generic Drugs Equivalent to the Brand-Name Drug	Generic Price (% of Brand-Name Drug Price)
1 (and no other province has a pricing agreement for the equivalent brand-name drug)	85
1	75
2	50
3 or more	25 (for oral solid/pills) 35 (for liquids, patches, injectables, inhalers, etc.)

Act in May 2015. The Tiered Pricing Framework applied retroactively to drugs listed on the Formulary on or after April 1, 2013.

Unlike the Initiative, which saw 18 generic drugs fall to 18% of the reference brand price, the Tiered Pricing Framework allowed the drug manufacturers of single and dual source generic drugs to set higher prices (50%, 75% or 85% of reference brand price) than allowed under the pricing framework introduced as part of the 2010 drug reforms (25% of reference brand price). The previous pricing framework allowed the Executive Officer to consider exceptions, however, which would have resulted in some generic drugs bringing in a higher price than normally allowed.

We also noted that the prices of generic drugs entering through the Tiered Pricing Framework are higher than the prices paid in other countries. An analysis in 2016 by the Patented Medicine Prices Review Board noted that Canadian prices for these drugs fell by 45% between 2007 and 2015, but that prices in the seven reference countries were still 16% and 28% below Canadian average and median prices, respectively, as of March 2015. This large gap indicates room for additional price improvement for generic drugs that entered through the Tiered Pricing Framework.

One criticism we have made of the Tiered Pricing Framework is that it may incentivize drug manufacturers to concentrate their efforts on the single and dual source categories, which allow for higher prices and thus additional costs to the Ministry. The Ministry did not break out the amount of total drug expenditures that related to these categories at the provincial level, as the relative growth in these categories since the introduction of the Tiered Pricing Framework and number of generic drugs in these categories are tracked nationally.

In addition, at the time of this audit, the Ministry had not addressed potential opportunities for additional value from prices of older generic drugs listed in the Formulary before April 1, 2013, which were neither part of the Initiative (described in the previous section) nor the Tiered Pricing Framework. The Ministry could not comment on whether it would address the prices of these older drugs in its current discussions with the Canadian Generic Pharmaceutical Association.

It is important to note that we do not view price as the singular measure of value in our analysis of the Tiered Pricing Framework. We do acknowledge that there are several potential benefits to the Tiered Pricing Framework, such as increased transparency in pricing policy, and better stability and predictability in the generic marketplace to assist drug manufacturers in planning the entry of generics into Ontario. Facilitating entry into the market will result in some cost savings, as generic medicines cost a fraction of their brand-name counterparts. Furthermore, other pricing models such as tendering may result in fewer generic suppliers and a higher risk of drug shortages that could negatively impact patient access to care.

$1.5 Billion Agreement between Quebec and the Canadian Generic Pharmaceutical Association

At the time of this audit, the Government of Quebec and the Canadian Generic Pharmaceutical Association had reached an agreement in principle that will provide the Government of Quebec with targeted savings of $1.5 billion over a five-year term starting October 1, 2017. The targeted savings will come through discounts on existing generic drugs and the launch of new generic drugs. In return for these savings, Quebec will agree not to tender competitively for generic drugs over the five-year term of the agreement. The parties were finalizing the agreement at the time of our audit, and the details were not available publicly.

This agreement in principle provides further evidence that prices of generic drugs in Canada can still reach lower levels. The regulations in Quebec require that generic prices are set according to the best prices granted to all provincial drug plans. As a result, if Quebec can obtain further discounts on these prices, it follows that other provinces and territories can obtain lower prices. However, these discounts came at the cost of agreeing not to tender for generic drugs. The Ministry will have to assess carefully whether a similar deal would be more cost-effective than tendering.

Comparison with Foreign Countries' Generic Drug Prices

We noted that some countries, such as New Zealand and the United States, pay lower prices for some generic drugs than the Ontario Drug Benefit Program. In comparing 20 generic drugs on Ontario's Formulary, our analysis showed that in 2016/17 Ontario paid roughly $100 million (or about 70%) more for the same drugs of the same strengths than New Zealand. The drugs we used in our sample were highly used in the Ontario Drug Benefit Program and also found on New Zealand's formulary. (Industry experts acknowledge New Zealand's generic drug prices to be among the lowest internationally.)

In comparing Ontario to the United States, we noted that the U.S. government-run Medicare and Medicaid programs are similar to the Ontario Drug Benefit Program because they provide drug coverage for seniors and for people with disabilities or low incomes. However, because Medicare and Medicaid recipients are much more numerous than Ontario Drug Benefit Program recipients, we did not compare those programs' formulary prices to the prices of drugs funded in Ontario. Instead, we used the formulary prices from the U.S. Department of Veterans Affairs to do our comparison. (This department's drug program provides federal drug benefits to eligible veterans and uses competitive tenders for its generic drug supply.)

Of the 20 generic drugs that we sampled from New Zealand's formulary, we found that two were not funded by the U.S. Department of Veterans Affairs. Of the remaining 18 drugs, we found that 17 were priced lower than Ontario's prices; the price of the one remaining drug was higher than Ontario's price. One of the 17 drugs was delisted by the Ministry in January 2017 as part of its initiative to address the opioid crisis.

However, we compare Ontario prices to other countries with caution, because it is important to note that drug plans operate in very different environments with regard to, for example, populations, demographics and illness profiles. Also, although some countries may obtain lower drug prices, they may do so at the expense of other possible benefits. For example, New Zealand's decisions not to fund particular drugs have often been controversial, and critics argue that it puts more focus on drug prices and financial implications than evidence-based medicine and good patient care. Further, New Zealand has increasingly experienced drug supply shortages, which is a risk when one drug manufacturer is granted exclusive rights to be the sole supplier of a drug.

4.2.2 Some Ontario Hospitals Pay Less for a Number of Common Generic Drugs Reimbursed under the Ontario Public Drug Programs

We found that some Ontario hospitals paid on average 85% less than the Ontario Public Drug Programs for a sample of generic drugs and noted different prices for the same drugs, even though the purchases in both cases are publicly funded. This inconsistency is due to the different procurement methods and different market characteristics in both settings. While the Ministry follows the Initiative and Tiered Pricing Framework (described in **Section 4.2.1**), hospitals typically use group purchasing organizations to tender bids for drug products on their behalf. The prices obtained by group purchasing organizations are also available to all other hospitals that are members of these organizations.

Hospitals' Competitive Procurement versus Ministry's Generic Drug Framework

Group purchasing organizations use a competitive procurement process to purchase generic drugs on behalf of hospitals. Under this system, drug manufacturers bid on supplying the hospitals' generic drugs, and the winning bid gets the contract. This kind of open competitive procurement process is required by Ontario's Broader Public Sector Procurement Directive, which applies to hospitals and other designated organizations, under section 12 of the *Broader Public Sector Accountability Act, 2010*. Bids are evaluated on a matrix showing price, volume to be supplied, and all other relevant factors. This differs from the Ministry's generic drug framework (**Figure 8**), where prices for generic drugs are set at a given percentage of the prices of the equivalent brand-name drugs.

These group purchasing organizations also negotiate confidential volume rebates for generic drugs, although the Ministry typically does not negotiate volume rebates for generic drugs.

Hospital Needs versus Community Needs

Hospitals often use different drugs than the ones covered by the Ontario Drug Benefit Program for use in the community—for example, certain cancer drugs and drugs used during surgery. However, some drugs are used in both settings. We compared a sample of generic drugs that were used in both the community setting and hospital settings, and found that hospitals were obtaining lower prices by 85%. That means hospitals are paying 15% of the Formulary price. For those drugs that we compared, Ontario Public Drug Programs paid $271 million more in 2016/17 for the same drugs of the same strengths than the hospitals.

To date, neither the Ministry nor the hospitals have completed any analysis or review comparing the procurement practices in both settings to determine if cost savings in the Province could be maximized if the Ministry used competitive procurement for drugs.

The Pharmacy and Therapeutics Committee, or equivalent, at each hospital evaluates drug therapies for addition to or removal from the hospital formulary and in establishing medication-use policies and procedures. These committees consist of individuals with backgrounds in medicine, nursing and pharmacy, and operate under the mandate of hospital accreditation standards.

Prospects for Competitive Tendering for Generic Drugs in Ontario

In spite of the price advantages we have noted with competitive tendering for generic drugs used in other countries and Ontario hospitals, there is no guarantee that Ontario could obtain the same prices for the same drugs under a similar system. For example, it is unknown what factors (such as volume) a drug manufacturer considers when submitting an offer to other countries. Furthermore, a caution is in order. New Zealand and the United States both award exclusive supply rights to one or more manufacturers that offer the most competitive deal. Yet drug shortages that could negatively impact patient access to care are a significant risk

when only one supplier or a few suppliers are allowed to control supply, as has been observed in New Zealand.

We note that the Ministry and Ontario hospitals must consider the consequences of drug shortages and drug supply on patient care under competitive tendering systems. We also note, however, that the Ministry has not conducted an analysis of the ways that other countries and Ontario hospitals pay for generic drugs so that the Ministry could incorporate their best practices in its drug programs.

RECOMMENDATION 2

To help Ontario obtain lower prices for generic drugs from drug manufacturers, we recommend that the Ministry of Health and Long-Term Care:

- conduct a cost/benefit analysis to determine whether best practices (such as tendering) used in other jurisdictions and in some Ontario hospitals could be more advantageous in some circumstances than retaining the Tiered Pricing Framework; and
- collaborate with other jurisdictions through the pan-Canadian Pharmaceutical Alliance to explore ways to negotiate a better Tiered Pricing Framework for generic drugs.

MINISTRY RESPONSE

The Ministry supports this recommendation as it is important to regularly explore other pricing models that may bring additional value. Pricing models in one jurisdiction may or may not be suitable in another jurisdiction, due to a variety of factors, and each model has its advantages and disadvantages that need to be analyzed and considered. It should be noted that the Ministry previously went forward with a competitive tendering process in 2008 that was not successful in achieving a savings model for generic drugs. Work is underway through the pan-Canadian Pharmaceutical Alliance (pCPA) to explore models of pricing generic drugs across all participating jurisdictions in a consistent and predictable manner. The pCPA is currently engaged with the generic industry to achieve further savings and additional value.

4.3 Access to Most Drugs Is Timely but Delays Are Incurred for Exceptional Access Cases

One of the key mandates of the Ministry is to ensure that eligible recipients of drugs through the Programs have timely access to drugs when needed. We noted that the Ministry is able to fulfill this mandate for the majority of recipients when their prescribed drugs are listed on the Formulary. We also reviewed the Ministry's process for listing and funding new drugs and found that it was based on clinical evidence and cost-effective analysis, as described in the following subsection.

Listing/Funding New Drugs in the Formulary

For a drug to be listed on the provincial Formulary, it must first be approved for sale by Health Canada. The Ontario Public Drug Programs do not cover all drugs approved for sale because the Ministry has to balance the needs of Ontarians, the costs of drugs, the evidence of their efficacy compared to other available funded options, and financial considerations including sustainability of the Programs. For that reason, patented drugs (brand-name drugs) go through the pan-Canadian process to inform jurisdictional decision-making before approval for coverage under the Ontario Drug Benefit Program, as shown in **Appendix 7**. In addition, based on the evidence review by the Canadian Agency for Drugs and Technologies in Health or the Ministry's Committee to Evaluate Drugs, some drugs may be more appropriately funded under the Exceptional Access Program (see **Section 2.1.1**) instead of the Formulary, funded subject to other specific criteria, or not funded at all.

Similarly to manufacturers of brand-name drugs, manufacturers of generic drugs must request and receive market authorization from Health Canada. Unlike brand-name drugs, most generic drugs

(about 90–95% of submissions for listing on the Formulary) are not required to be reviewed by the Ministry's Committee to Evaluate Drugs, because they are declared equivalent, by Health Canada's regulatory processes, to the brand-name drugs that have already gone through the approval process. The Executive Officer of the Ontario Public Drug Programs makes the final listing/funding decision.

The Ministry does not regularly delist drugs from the Formulary unless the drug is proven to be harmful or the manufacturer has discontinued production. Before delisting a drug, the Ministry considers the current patient use of that drug so that, for example, no group of patients is left without access to a needed drug or a therapeutic alternative.

4.3.1 Overall Patient Experience Times for Some Exceptional Access Drugs Were Excessive

We noted that some delays (measured in "patient experience time," which we explain later in this section) are incurred when patients require prescribed drugs that are not on the Formulary but are available following case-by-case review through the Ministry's Exceptional Access Program.

The program area receives approximately 24,000 calls per year, or approximately 100 per day, of which the majority, or 88%, are requesting status updates on their requests. A May 2016 survey by Cancer Care Ontario noted that 52 out of 66 (or almost 80%) of oncologists who were surveyed indicated that if there was a delay in receiving a request approval, they would resort to delaying therapy. Other responses from the same group of oncologists surveyed included obtaining a compassionate supply of the drug from the manufacturer (almost 76% of oncologists surveyed said they would do this) and encouraging patients to pay for the prescription themselves (almost 35% of oncologists surveyed said they would do this). Ministry internal documents have also identified inefficiencies in the Exceptional Access Program resulting in delays in processing requests for drugs requiring case-by-case review. **Figure 9** illustrates where some of these delays may occur.

In 2016/17, Ministry costs associated with drugs approved through the Exceptional Access Program were about $810 million for about 65,850 Ontarians who had utilized approximately 580 drugs from the list of over 1,000 drugs requiring case-by-case review to meet approved criteria.

Between 2010/11 and 2015/16, the number of unique requests for exceptional access coverage increased by 26%, from 56,520 to about 71,460. Over the same period, the number of assessment response letters provided by the Ministry to requesting physicians (including those requesting further information) increased by 32%, from about 67,760 to about 89,450.

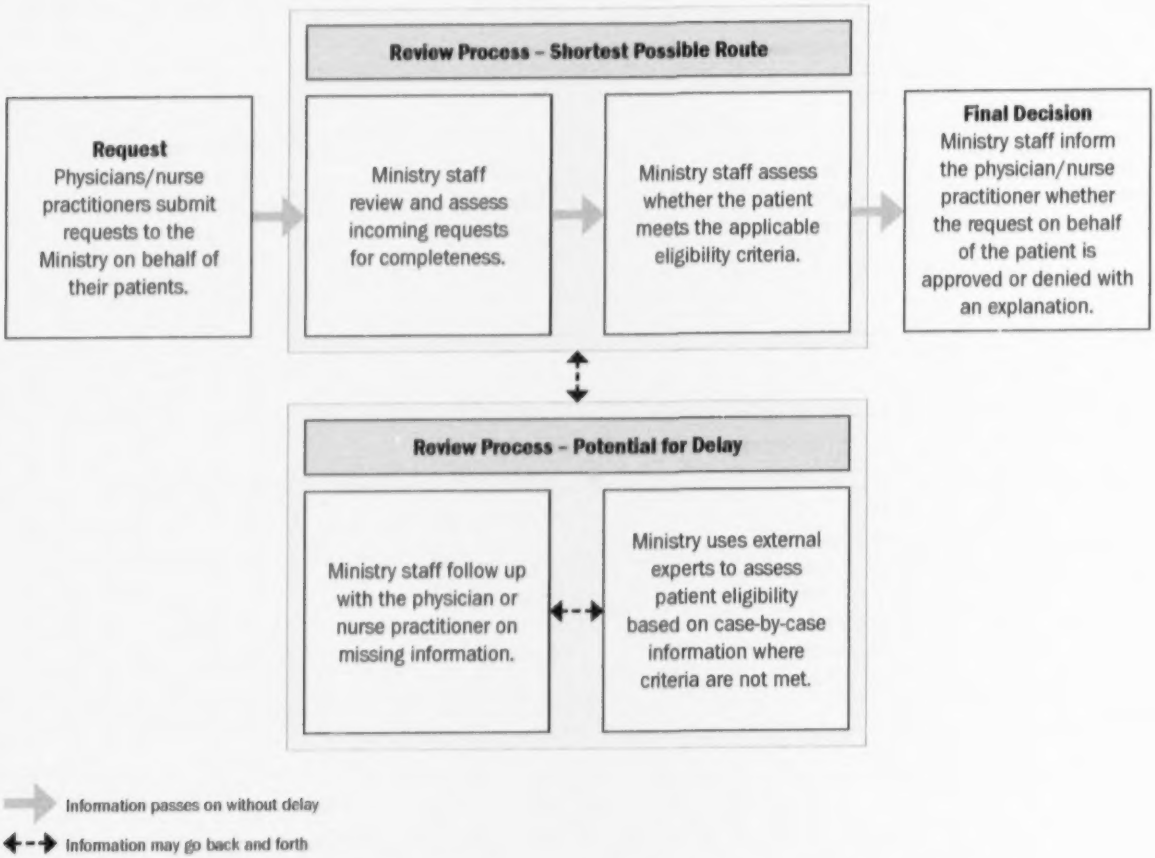
We define "patient experience time" as the time between when the Ministry receives the original request for coverage and when it replies with its decision. The Ministry does not routinely track or publicly report the overall patient experience time for each request, and therefore it does not have a standard or target for meeting patient experience times. However, it calculated these patient experience times at our request.

We found that patient experience times for many requests were too long. For example, in 2016/17:

- The patient experience time taken for the two most requested biologic drugs (3,796 requests for adalimumab and another 4,032 requests for infliximab, both used to treat arthritis, uveitis, inflammatory bowel disease and other conditions) was, on average, between 34 and 41 business days—approximately seven to eight weeks. (Biologic drugs are pharmacological products isolated from natural sources, often using cutting-edge genetic technology.)
- Another 107 requests for a drug to treat gastrointestinal disorders (pinaverium bromide) took on average 59 business days—approximately 12 weeks.

Figure 9: Steps Involved in the Exceptional Access Program

Prepared by the Office of the Auditor General of Ontario


Review Process – Shortest Possible Route
Request
Physicians/nurse practitioners submit requests to the Ministry on behalf of their patients.
Ministry staff review and assess incoming requests for completeness.
Ministry staff assess whether the patient meets the applicable eligibility criteria.
Final Decision
Ministry staff inform the physician/nurse practitioner whether the request on behalf of the patient is approved or denied with an explanation.
Review Process – Potential for Delay
Ministry staff follow up with the physician or nurse practitioner on missing information.
Ministry uses external experts to assess patient eligibility based on case-by-case information where criteria are not met.
Information passes on without delay
Information may go back and forth

- Another 242 requests for a drug to treat asthma and other indications (budesonide) took on average 57 business days—approximately 11 weeks.
- Another 469 requests for a drug to treat hepatitis C (sofosbuvir) took on average 44 business days—approximately nine weeks—for the Ministry to arrive at a funding decision.

The Ministry noted that the long patient experience times for the two most requested biologic drugs were in part due to about 20% of the requests that were awaiting additional information from physicians, and about 20% that required external review (as illustrated in **Figure 9**). An external review is required for more complex or unique cases. Physicians contracted by the Ministry conduct the review to assess a recipient's unique medical situation against the Ministry's funding criteria.

4.3.2 Ministry Does Not Report Publicly on Actual Patient Experience Time

Instead of reporting the overall patient experience time to the public, the Ministry publicly reports weekly and annually the number of days on average it takes to respond and/or follow up on each piece of missing information from the patients' physicians. The Ministry's rationale for reporting this way (by each response time) was that time spent waiting for missing information is out of its

control; therefore, overall patient experience times should not be used to measure the program's actual performance. The Ministry also indicated that it was unable to track all elements that made up the overall patient experience times. From a patient's point of view, however, it is the time between the patient's appointment with a prescriber, where the need for a drug is identified, and the day the prescriber conveys the Ministry's decision that counts.

However, even when the Ministry measures the time taken based on the number of days that are within its control (that is, by each response time), between 2010/11 and 2015/16 the Ministry consistently failed to meet its targeted times for processing incoming physicians' requests for their patients. **Figure 10** indicates that, for example, in 2015/16, the Ministry was able to respond within its targeted time frames, on average, only 48% of the time, not 85% as targeted.

In 2015/16, about two-thirds of the 89,452 responses were classified in one of the three priority queues that the Ministry targeted for response between three and 10 business days. **Figure 10** shows the percentage of time the Ministry has met its target response times and the average number of days taken for each queue from 2010/11 to 2015/16. The trend indicates that, except for the *non-rush queue*, which is the lowest priority, the average target response times have not been met. On average, the most urgent cases take longer to respond to than less urgent cases. In 2015/16, the Ministry was able to meet its targets only 19% to 36% of the time for urgent cases, compared to 85% for non-urgent cases. We also noted the following:

- Neither the *stat-rush queue* nor the *rush queue* has met its target response time of less than or equal to three days and five days, respectively, in any year.
- The *biologics queue* (which includes only biologic drugs) has met the target response time of less than or equal to 10 days only once, in 2013/14.
- Applications in the *non-rush queue*, which holds the lowest priority cases, have

Figure 10: Ministry of Health and Long-Term Care (Ministry) Response Statistics for the Exceptional Access Program, 2010/11–2015/16[1]

Source of data: Ministry of Health and Long-Term Care

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
# of Ministry responses (includes approvals, rejections and written requests for additional or missing information)	67,761	71,916	88,158	76,656	75,662	89,452
Priority Queue[2,3] and Target Response Time	**% Meeting Target Response Time (Average # of Business Days before Response Faxed to Requesting Physician)**					
Stat-rush 85% <= 3 days	36% (13 days)	32% (10 days)	40% (6 days)	50% (6 days)	40% (6 days)	36% (7 days)
Rush 85% <= 5 days	13% (32 days)	25% (20 days)	31% (12 days)	56% (9 days)	33% (12 days)	19% (22 days)
Biologics 85% <= 10 days	10% (42 days)	31% (26 days)	66% (12 days)	71% (10 days)	23% (22 days)	30% (23 days)
Non-rush 85% <= 30 days	29% (66 days)	61% (31 days)	84% (20 days)	91% (11 days)	79% (19 days)	85% (17 days)
Total % meeting target (weighted average)	**25%**	**39%**	**58%**	**69%**	**43%**	**48%**

1. Ministry response statistics do not measure the time it takes for a response to a request for drug coverage to be communicated to a physician or nurse practitioner (patient experience time); instead, they measure the time it takes to respond and/or follow up on each piece of missing information in a request. A request with incomplete patient information may require more than one response before the recipient is informed of the Ministry's decision on drug coverage.
2. The allocation of drugs to each queue is based on the drug and the clinical indication(s) for which it is used.
3. The names of the priority queues were revised as of April 1, 2017.

consistently met their target response time of less than or equal to 30 days since 2012/13.

4.3.3 Weaknesses in Processing Exceptional Access Requests Have Been Known Since 2010

The Ministry made proposals to address the program challenges as early as 2010, seven years prior to our audit. A 2010 internal Ministry document stated that an online channel for applications, an interactive voice-response status inquiry, and real-time, online assessment decisions for some drugs would be introduced in the first quarter of 2011/12. However, at the conclusion of the concept phase, those proposals were not approved to proceed. As a result, an information-system solution to address the program challenges was paused at the time. Although the Ministry has tried to address the delays through changes in processing of requests, its response times to exceptional access requests have continued to fall short of its targets.

In 2015, the Ministry proposed a new Special Authorization Digital Information Exchange system and received approval to proceed with the implementation in the following year. Assuming the new system is complete in October 2018, as planned, it will have been three years after it was first proposed in 2015. In August 2016, the Ministry's estimate of the project's total budget was approximately $14.4 million between 2016/17 and 2018/19.

The Special Authorization Digital Information Exchange is expected to transform the ways in which physicians and nurse practitioners interact with the Exceptional Access Program and to streamline the back office processing of requests. Its purpose is to modernize a process that is still largely manual. For example, requests are now received through a telephone request service, by mail or as faxed images, and these must all be manually data-entered into the system. Adjudicating requests and applying eligibility criteria are also done manually.

The new system will also allow the Ministry to aggregate more clinical data, such as what drug each patient is using and for which specific indication, which condition each patient has, which specific criteria are met, which unmet criteria resulted in a rejection of the request, and which drugs required an external review. Given that the Ministry's decisions on exceptional access drugs must balance patient/clinical factors and cost factors, this type of information will allow the Ministry to make better decisions regarding which drugs it should fund only through the Exceptional Access Program or under other specific criteria, instead of as a general benefit on the Formulary.

RECOMMENDATION 3

To help ensure that patients receive timely access to drugs that are considered for coverage under the Exceptional Access Program, we recommend that the Ministry of Health and Long-Term Care:

- streamline the existing processes to consistently meet its targeted response times for all requests for drugs covered through the Exceptional Access Program;
- complete the implementation of the new Special Authorization Digital Information Exchange system; and
- use the new system to collect the necessary data to inform the policies and administration of the programs, such as whether it should fund certain drugs through the Exceptional Access Program, with other specific criteria or as a general benefit through the Formulary.

MINISTRY RESPONSE

The Ministry agrees that Ontarians should receive timely and equitable access to effective therapies and that processes for both access and funding of such therapies should be streamlined, efficient and sustainable to effectively serve the public. The Ministry accepts the recommendation to make process improvements to optimize the timeliness of access

to drugs covered through the Exceptional Access Program.

The Exceptional Access Program currently receives between 250 and 500 requests a day for case-by-case review and continues to modernize and optimize its manual processes for assessment of requests through technology solutions, streamlining initiatives and enhancing criteria transparency. The Special Authorization Digital Information Exchange solution will be launched in 2018, offering an online digital service for prescribers applying to the Exceptional Access Program that has the capability to provide real-time responses for many Exceptional Access Program drugs and indications and to improve the timeliness of decisions for drug access. The Ministry intends to use information from the Special Access Digital Information Exchange for program planning and analytical purposes, including supporting forecasting for ongoing program improvements to meet clinician and patient needs.

4.4 Few Inspections and Lags in Reporting Potential Fraud Have Resulted in No Action Taken in Suspicious Cases

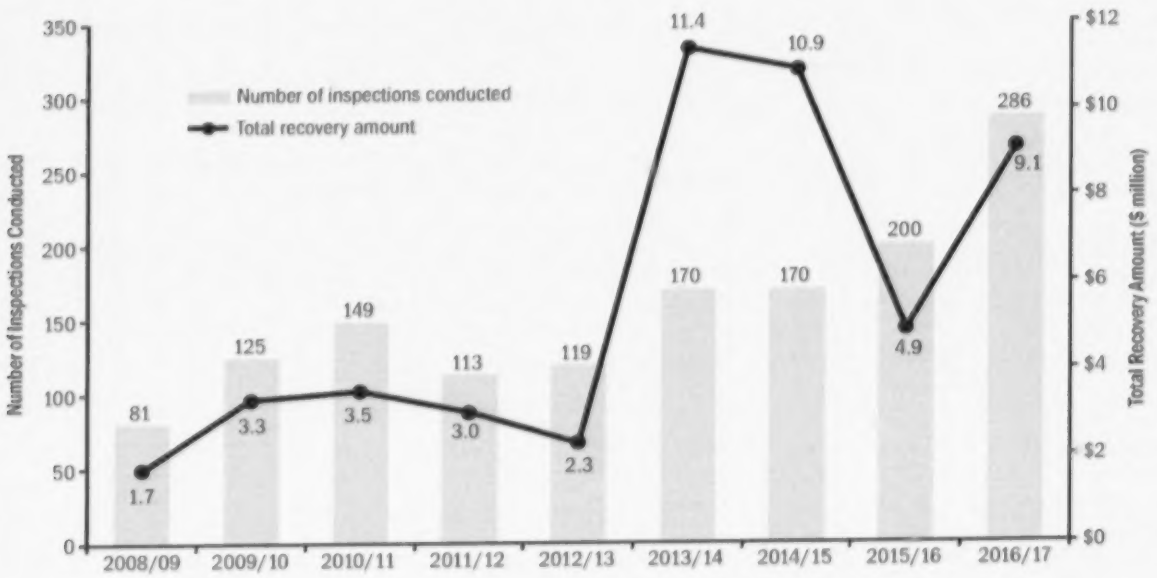
4.4.1 Few Pharmacies Were Inspected

The Ministry oversees payments under the Programs to over 4,260 dispensing entities, including retail pharmacies and retail pharmacies that also serve long-term-care homes. With the staffing resources available at the Ministry, inspecting all these entities would not be possible or practical. Since we identified inspection coverage as an issue in our 2007 value-for-money audit "Drug Programs Activity," we have noted that the number of inspectors has increased, from three in 2006/07 to 10 in 2016/17, and the number of annual inspections has also increased.

Figure 11 shows that the number of inspections increased from 81 in 2008/09 to 286 in 2016/17, and recoveries of inappropriate payments resulting from these inspections increased from $1.7 million

Figure 11: Number of Inspections Conducted and Total Amount Recovered, 2008/09–2015/16

Source of data: Ministry of Health and Long-Term Care



Note: The spikes in recoveries for 2013/14 and 2014/15 were attributed to six pharmacies that were inspected and resulted in very high recoveries of $6.5 million in 2013/14 and $5.96 million in 2014/15.

to $9.1 million. We also noted that the number of inspections per inspector increased during the same period—from about 12 annual inspections in 2008/09 to 29 annual inspections in 2016/17.

Despite the increase in pharmacy inspections, we noted that the percentage of pharmacies and other dispensing entities inspected by the Ministry is still low. As of February 1, 2017, there were over 4,260 dispensing entities that could be subject to Ministry inspections. (The number of active pharmacies changes frequently, since pharmacies open and close regularly across Ontario.) Of these, only 19% had been inspected under their current ownership. **Figure 12** shows that since 2008/09, between approximately 2.4% and 6.7% of active dispensing entities have been inspected each year. Also every year, the number of pharmacies grows on average about 3%. At the current inspection rate, each pharmacy or dispensing entity would be inspected once every 15 years, which is an improvement over once every 30 years from the last time we audited the program in 2007, but still a low rate of inspection.

Inspectors' responsibilities include reviewing pharmacy claims data for variances, conducting in-depth inspections where appropriate, and taking action to recover inappropriate payments.

Ministry inspections are typically initiated for any of the following reasons: data mining or analytics performed by inspectors, the anticipated sale or closure of a pharmacy and its account with the Ministry, information from the Ministry's fraud hotline, and tips from the Ministry help line that answers pharmacists' queries. An inspector may examine any pharmacy records in any form in the possession of a pharmacy if the inspector believes that these records will assist in determining the accuracy of a claim for payment.

4.4.2 Ministry Did Not Refer Several Potentially Fraudulent Cases to the Ontario Provincial Police in a Timely Manner

We noted that no formal protocol has been established between the Ministry and the Ontario Provincial Police (OPP) regarding what should be communicated between them, and when, if suspicious claims have been identified as a result of pharmacy inspections. This has resulted in the OPP not investigating some cases because information was not forwarded in a timely manner.

Figure 12: Percentage of Pharmacies and Other Entities Inspected and Number of Cases Referred to Ontario Provincial Police, 2008/09–2016/17
Source of data: Ministry of Health and Long-Term Care

	% of Pharmacies and Other Dispensing Entities Inspected	# of Inspection Cases Referred to Ontario Provincial Police
2008/09	2.4	0
2009/10	3.6	1
2010/11	4.1	5
2011/12	3.0	8
2012/13	3.1	4
2013/14	4.3	0
2014/15	4.2	0
2015/16	4.7	2
2016/17	6.7	13

During the course of an inspection, an inspector may uncover findings that suggest fraudulent claims may have been submitted to the Ontario Public Drug Programs. On a case-by-case basis, management will determine whether the case warrants referral to the OPP so that it can conduct a criminal investigation.

Figure 12 shows that there were no cases referred to the OPP in both 2013/14 and 2014/15, followed by two cases in 2015/16 and 13 in 2016/17. The 13 cases in 2016/17 resulted from a meeting between the OPP and the Ministry in August 2016, where the OPP questioned Ministry staff why few files or none at all were being sent to it for investigation. Soon after, the Ministry forwarded the 13 files to the OPP for further investigation.

We noted that in all of these cases the Ministry terminated the pharmacies' billing accounts and recovered a total of $1.8 million from inspections conducted between 2011 and 2015.

When we spoke to the OPP about the 13 files, we noted that eight of them were too old to investigate, because the inspections had taken place between 3.5 and five years before the date of referral. Representatives from the OPP explained that they were not able to proceed with an investigation on all the files mainly because the Ministry had not sent them in a timely fashion. The length of time since the alleged offence, the lack of available evidence for examination, monies paid back to the Ministry by the pharmacy, and limits on the OPP's resources were the specific reasons for rejecting files for investigation. The Ministry could not explain why these cases had not been forwarded to the OPP in a timely manner.

Although the Ministry terminated the accounts of all these pharmacies, eight were left without further investigation by the OPP even though documentation suggests that fraudulent billing was suspected. For example:

- In all eight cases there were discrepancies between drug purchases and sales where the pharmacy could not explain why there were not sufficient drug inventory purchases to cover the pharmacy's claims to the Ontario Drug Benefits program.
- In three of the eight cases, physicians or patients denied that prescriptions were actually prescribed or received after they were sent verification letters.
- In another case, the inspector noted a concern that during every site visit related to the inspection, the inspector did not see one patient or hear the phone ring.
- One pharmacy owner admitted that when they did not have enough stock to fill a prescription, they gave the patient what was on hand and still billed for the full amount. If the patient subsequently did not pick up the balance of the prescription owing, the pharmacy owner would sometimes return the balance to stock without crediting the claim. This pharmacy owner claimed that the pharmacy was too busy to do the necessary paperwork, and that they did not deliver the balance to the patient because delivery was too expensive.

RECOMMENDATION 4

To help ensure that appropriate and timely action is taken regarding possible fraudulent claims, we recommend that the Ministry of Health and Long-Term Care work with the Ontario Provincial Police to establish and follow a formal protocol identifying criteria and targets for exchanging information in a timely manner.

MINISTRY RESPONSE

The Ministry agrees that the timely acquisition of information by the Ontario Provincial Police (OPP) will aid in more successful investigations into potentially fraudulent activities by pharmacy operators. The Ministry will work with the OPP to establish a formal protocol for information sharing. This will be one component of a risk-based framework for monitoring Ontario Drug Benefit payments to pharmacies.

4.4.3 Many Invalid Claim Payments Were Not Inspected or Recovered

We noted several areas where the Ministry paid invalid claims to pharmacies, yet it did not inspect and/or recover many of these invalid payments, leading to about $3.9 million of inappropriate payments.

Claims Paid for Deceased Patients

Claims are sometimes paid for patients who have died. This may happen, for example, for patients on regular drug schedules in long-term-care homes, if the pharmacist processes a prescription after a patient's recorded date of death. Pharmacies are expected to submit claim reversals in these cases; in many cases, they can return the drugs to their inventory. The Ministry routinely recovers these claims from pharmacies that it has inspected,

because the date of death is captured in the Health Network System. But if there is no inspection, there is often no recovery. In 2015/16, recoveries related to claims paid for deceased patients totalled $42,365, even though the Ministry had paid about $951,900 for their prescriptions. This resulted in about $910,000 not recovered by the Ministry.

Claims Paid for Unsuccessful Reversals of Claims

We noted that claims are paid for prescriptions that pharmacies may subsequently try to reverse online. This sometimes happens because the pharmacies have only seven days to reverse a claim online through the Health Network System if they submitted it inappropriately or erroneously. An example of this is when a pharmacist submits a claim before patients pick up their medication, but in the end the patients never pick it up. After seven days, the reversal does not get processed. (If a reversal is submitted online, after seven days the system sends a response that the claim is too old and directs the pharmacy to submit a paper reversal form.) The system logs claims that were attempted to be reversed and where the pharmacy was directed to submit a manual claim for reversal. When no manual reversal was submitted, inspectors can review and recover these amounts when they inspect pharmacies. Recoveries related to claims for unsuccessful reversals in 2015/16 were about $900,000 for 130 pharmacies, which was 19% of total recoveries that year. The amount the Ministry paid for claims where reversal attempts were unsuccessful was nearly $3.1 million. This resulted in about another $2.1 million not recovered by the Ministry.

We noted that the industry standard for pharmacies billing private insurance companies is 90 days to reverse a claim. If the Ministry also provided pharmacies with a longer time frame to reverse their claims, it would be paying fewer invalid claims.

Claims Paid for Ineligible Recipients on Limited-Use Drugs

We noted that claims are paid for ineligible recipients relating to a category of drugs called limited-use drugs. The drugs in this category are funded only for specific uses, and patients must meet set criteria to be eligible for them. For example, the patient must be of a certain age and/or gender, and/or have a specified medical condition, and/or present specific symptom tests or other laboratory results. Some of these drugs are not prescribed for general use because of their high cost, while others may have adverse side-effects in some patients. Certain limited-use drugs may have recognized benefits for some conditions but may also have the potential for widespread use in treating other conditions.

A physician may have various reasons for prescribing a limited-use drug to treat a patient who does not meet the required criteria for reimbursement. Some physicians may not be concerned that a less expensive alternative to a highly effective drug is available on the Formulary. In other cases, the physician may have been advised that the drug is effective when prescribed for a different condition than the indications specified in the Formulary, and for which the drug is conventionally used.

As of May 31, 2017, the claims submitted for funding under limited-use criteria represented approximately 950 drugs out of 4,400 listed on the Formulary. For 2015/16, total expenditures on limited-use drugs were about $1.3 billion for 1.4 million recipients. In 2015/16, the Ministry recovered about $1.08 million from 148 pharmacies as a result of inspections related to invalid criteria used for prescribing limited-use drugs. Dispensing drugs contrary to the limited-use criteria is the number one reason for recovery from inspections.

We noted that there is often no way for pharmacists to verify whether clinical criteria are met before dispensing a limited-use drug. This is because the Health Network System does not collect clinical data and the physician is not required to provide such information. Although the physician must certify in a "reason for use code" that the

clinical criteria have been met and the pharmacist must inspect the code, if the physician enters an incorrect code, even a pharmacist who properly inspects the documents will often not uncover the error. Without an electronic data system in place and linkages to physicians, the clinical data to inform the pharmacist is not available. Pharmacists are required to use their professional judgment to confirm the patient's eligibility with the physician or with the patient, if possible.

However, clinical criteria relating to the patient's age and gender can be verified prior to payment, since this information is captured on the patient's health card. We obtained claims data for the calendar year 2016 and selected a sample of limited-use drugs with age- and gender-based criteria for analysis, and found that approximately $922,000 was spent where the criteria were not met. For example:

- Two different drugs to treat a skin condition both require the patient to be 18 years or older in order to be reimbursed for the drugs. In 2016, 164 claims were paid for a total of $279,000 where the patient was younger than 18 years.
- Another drug used to treat a bone disease is covered only for women. However, in 2016, approximately 1,100 claims were paid for men for a total of $422,000.

In these two examples, these drugs appear to have been used safely by patients who may be able to benefit from them, even though the patients did not meet the Ministry's limited-use criteria. However, the Ministry did not know why physicians prescribed these drugs and/or whether its criteria for limited use for these drugs are outdated. The Ministry also did not know why pharmacists were not verifying patients' age and gender prior to claiming these drugs.

RECOMMENDATION 5

To help ensure that only valid and appropriate claims are paid to pharmacies, we recommend that the Ministry of Health and Long-Term Care (Ministry):

- recover payments from all pharmacies for claims paid inappropriately for deceased persons and unsuccessful reversals;
- allow pharmacies a longer time frame to reverse invalid claims, in line with the industry standard;
- investigate why some physicians prescribed limited-use drugs to patients who did not meet the Ministry's limited-use criteria and review whether the Ministry's existing criteria are up-to-date; and
- implement system controls to prevent claims that do not adhere to limited-use criteria, such as gender- and age-based criteria, so that these claims would be rejected or adjudicated at the point of dispensing and therefore would not have to be subject to inspection.

MINISTRY RESPONSE

The Ministry strives to ensure that all payments to pharmacies are appropriate and conform to the *Ontario Drug Benefit Act*, other statutes and associated regulations, and Ministry policies. System controls can prevent some amount of inappropriate billing, but the Ministry also relies on the professional standards and ethics of physicians, nurse practitioners and pharmacists, all of which are regulated health-care professions in Ontario.

The Ministry agrees that invalid claims for deceased persons and unsuccessful reversals should be actively recovered where appropriate. The Ministry is enhancing its capacity for reviewing pharmacy billing data through the addition of new assessment staff and implementation of enhanced analytics.

The Ministry is actively reviewing the extension of the current seven-day reversal period placed on the processing of online claims by pharmacies. Extending the window to allow more time for electronic submission through the Health Network System will require a change to a regulation under the *Ontario Drug Benefit Act*.

The Ministry will consider the implementation of system controls and automation for limited-use drugs to enable greater adjudication of limited-use criteria at the points of dispensing. Cost-benefit analysis will need to take into account the benefits of potential claim-processing improvements against the cost that may be incurred to automate through system changes.

4.5 Ministry Could More Effectively Manage Its Oversight of Pharmacy Claims and Payments

4.5.1 Ministry Lacks Detailed Plans and Approach to Inspect Pharmacies

Since inspecting each pharmacy is not practical, it is critical for the Ministry to identify and target high-risk pharmacies where inappropriate billings are occurring and focus inspection resources on these pharmacies. Although the Ministry has prepared plans for pharmacy inspection, we found that the plans provide only general guidelines with a broad direction for inspectors to follow. The plans do not, however, outline high-risk entities with analytics run on a provincial basis. We expected the Ministry to have detailed plans that identify specific risk areas where inspector resources would be focused; however, no such documented plans existed. We also expected to see inspection reports that detailed common themes and areas where pharmacies were making billing mistakes and where pharmacies would benefit from communication from the Ministry on how to bill appropriately. Again, no such analysis existed.

After a pharmacy is inspected, an amount owing to the Ministry is almost always recovered; nevertheless, the Ministry has no plan or focus to follow up on these pharmacies to ensure that identified errors are not repeated. The Ministry told us that data analytics are performed on pharmacies that have recently been inspected to determine whether inappropriate claims are still being submitted. There was no documentation to support this, however.

We asked the Ministry to identify the most common errors resulting in recoveries. Data the Ministry provided indicates that in 2015/16, the most common error resulting in recoveries was prescribing limited-use drugs to patients who did not meet the required criteria for these products, at nearly $1.08 million in recoveries (see **Figure 13**). We discussed this in **Section 4.4.3**.

RECOMMENDATION 6

To help ensure better use of inspectors' resources and that high-risk pharmacies with potentially inappropriate billings are inspected, we recommend that the Ministry of Health and Long-Term Care use detailed annual inspection plans, identify high-risk areas and/or pharmacies, and allocate its inspection resources more robustly based on risk.

MINISTRY RESPONSE

The Ministry agrees that inspection resources could be allocated more effectively with tools that identify high-risk pharmacies and inform detailed annual inspection plans. The Ministry will augment its data analytics capabilities to identify high-risk pharmacies for inspection, develop a framework for detailed annual inspection plans, and allocate inspection resources accordingly.

4.5.2 Inspection Efforts Were Spent on Areas That Could Be Automated

Ministry inspectors may recover amounts paid to pharmacies if the pharmacy does not retain specific required documentation and forms. However, the only way for an inspector to verify missing forms is to conduct a physical inspection at the pharmacy.

The inspectors spend much of their efforts on verifying that these forms exist on the pharmacists' premises. If the prescribing physicians completed and stored the forms relating to their prescriptions electronically with linkage to the inspectors,

Figure 13: Inappropriate/Invalid Pharmacy Claims Resulting in Recoveries, 2015/16

Source of data: Ministry of Health and Long-Term Care

Description of Inappropriate/Invalid Claim	# of Pharmacies	Amount Recovered ($ 000)
Invalid criteria for limited-use product[1]	148	1,079
Unsuccessful reversals[2]	130	900
Dispensing less than the quantity claimed, resulting in overpayment[3]	6	596
Missing side-effect reporting forms for adverse reactions[4]	108	498
Invalid MedsCheck claim[5]	99	403
Package size error[6]	76	347
Other[7]	22	320
Missing nutritional products form[8]	61	273
Missing drug benefit eligibility card[9]	60	243
Invalid criterion for nutritional product[10]	54	186

1. A limited-use product is reimbursed only when prescribed for an eligible recipient who meets the required criteria listed in the Drug Benefit Formulary for the product. Patients are eligible only when all specific clinical criteria and/or conditions for use are satisfied.
2. Claims the pharmacist submitted and received payment for, and then tried to reverse (e.g., erroneous or inappropriate claims) online more than seven days after the claim was processed. Claims cannot be reversed online after seven days.
3. Billing for a larger quantity than the quantity actually dispensed. For instance, billing for a three-month supply of a product but dispensing only a one-month supply.
4. Pharmacist's failure to retain a copy of a patient's prescription and/or the Side Effect Reporting Form, completed and signed by the prescriber.
5. Pharmacist's claim paid for MedsCheck services provided to a drug recipient who is ineligible to receive these services, or pharmacist's failure to retain a copy of the recipient's signed medication review list and any supporting documents.
6. Incorrect billing of the quantity of a product. One such error involves billing by volume instead of by number of units.
7. Other errors not falling into the usual categories.
8. Failure of a pharmacy to retain a valid nutritional products form, fully completed and signed by the physician. (See also note 10.)
9. Failure to retain a valid drug benefit eligibility card on the date of patient service.
10. Nutritional products are eligible for coverage only when prescribed by a practitioner as the patient's sole source of nutrition (orally or by tube), and in addition the patient meets specific clinical criteria. Products are reimbursed only when the proper form is retained and all specific clinical criteria and conditions for use are satisfied.

this resource-intensive manual process could be avoided.

Automation could result in better use of inspector time in the following two areas:

Forms for nutritional products: Certain nutritional products (dietary supplements) are eligible for coverage under the Programs, but the pharmacist needs the patient's physician to complete and sign the appropriate form in order to be reimbursed. If the physician has not provided the form, the entire cost of the nutritional product is recoverable by the Ministry upon inspection. In 2015/16, $32.8 million was paid for over 20,000 patients for claims that required nutritional forms. In the same year, the Ministry recovered $273,000 from 61 pharmacies that it inspected.

Forms for side-effect reporting: The Ministry will reimburse a pharmacy only for the cost of the less-expensive generic equivalent of a brand-name drug unless the patient has an adverse side-effect to the generic drug. The pharmacy must have a copy of the appropriate form completed and signed by the patient's physician to be reimbursed for the full cost of the brand-name drug it has dispensed. If the form is not on the pharmacy's premises during an inspection, the Ministry will recover the difference in cost between the generic drug and the brand-name drug. In 2015/16, total claims paid that required these forms were $14.9 million for 26,730 patients. In the same year, the Ministry recovered $498,000 from 108 pharmacies that it inspected.

RECOMMENDATION 7

To improve the use of inspectors' resources with the focus on enforcing that only valid claims are paid, we recommend that the Ministry of Health and Long-Term Care:

- assess whether the required forms relating to prescriptions could be accessed differently; and
- reimburse claims only when the required forms are submitted.

MINISTRY RESPONSE

The Ministry will conduct further analysis to assess both the operational and technical feasibility of this approach and the cost of making changes to receive and store forms for nutritional products and side-effect reporting.

In addition, an evaluation of protocols relating to recovery for claims for which required forms are not submitted will be conducted.

4.6 Effectiveness of MedsCheck Is Still Not Known

4.6.1 MedsCheck Performance Indicators Lacking

A MedsCheck is a one-on-one consultation between a pharmacist and a patient to review the medication profile of a patient who is taking three or more chronic-use medications or meets other criteria for eligibility.

The Ministry set clear objectives for the MedsCheck program, such as promoting healthier patient outcomes, quality of life and disease self-management, and improving patient knowledge, understanding of and adherence to drug therapy. However, it did not identify what information it would need to evaluate whether it was meeting these objectives. As a result, the Ministry could not provide sufficient evidence as to the program's ability to meet its intended goal and objectives in a cost-effective manner. The Ministry also did not establish any performance indicators to measure the success of the program.

The Ministry launched the MedsCheck program in April 2007 as the first professional pharmacy service in Ontario outside of dispensing services. Since the program's inception, from 2008/09 to 2016/17, the Ministry has spent approximately $550 million on MedsCheck services.

MedsCheck came in at a time when Ministry drug reforms had significantly reduced pharmacy revenues by reducing the prices of generic drugs and prohibiting pharmacies from receiving rebates and professional allowances from drug manufacturers. The Ministry estimated these pharmacy rebates and professional allowances to be worth hundreds of millions of dollars. To counteract some of these losses, we observed that the Ministry increased dispensing fees steadily from 2007 onwards and began reimbursing pharmacies for performing professional services such as MedsCheck, administering influenza shots, and identifying drug-related issues when dispensing a medication.

Even taking into consideration the history and context of the launch of reimbursed pharmacy professional services in Ontario, the lack of performance indicators forces us to question the usefulness and effectiveness of a program like MedsCheck. As technology continues to progress, the Ministry will need to evaluate the value of this service and adjust reimbursement accordingly based on evidence. For example, one of the key outcomes of a MedsCheck is a personal medication record that contains a list of all the prescription medicines, over-the-counter drugs, and/or herbal medicines used by a patient.

The Ministry informed us that the program enhancements of October 2016 (discussed in **Section 4.6.2**) were its first steps in attempting to measure MedsCheck's success. The Ministry also indicated that collecting relevant, accurate and complete data was a significant challenge to meet for it to measure the program's effectiveness. Although most Canadian provinces fund medication review programs (**Appendix 5**) that are similar to MedsCheck in Ontario, we did not identify any

other provinces or countries that have implemented performance indicators for their medication review programs.

Based on our research, the following are potential performance indicators and outcomes that could be expected from MedsCheck:

- a reduction in adverse patient events related to the use of multiple medicines;
- a reduction in the number of hospital admissions due to adverse drug events;
- a reduction in the amount of wastage from unnecessary prescription medication; and
- confirmation that those patients who take the most medications are receiving MedsCheck services.

4.6.2 Ministry Implemented Changes to MedsCheck Contributing to Fewer Patients Receiving the Services

We noted that the Ministry implemented changes to the MedsCheck program in October 2016 without adequately assessing the consequences, and as a result, the number of MedsChecks has significantly decreased, contributing to fewer patients receiving the services.

Total expenditures for MedsCheck decreased by 24% in one year, from $92 million in 2015/16 to $70 million in 2016/17. The number of claims also decreased by 25%, from 1.6 million to 1.2 million. We noted that the decrease in MedsCheck services was higher among those patients taking more medications and thus requiring more documentation and longer consultation sessions. The proportion of MedsChecks for patients with three to four medications dropped by 4%, while MedsChecks for patients with more than 13 medications decreased by 9.3%. Given that the Ministry provides a fixed payment of $60 per MedsCheck regardless of patient complexity, pharmacists may have less incentive to seek out and provide these services to patients with more medications and who would benefit more from the MedsCheck service.

In October 2016, the Ministry enhanced the MedsCheck program to increase the quality and consistency of the process. The new process required pharmacies to use standardized forms and provide more documentation when conducting MedsCheck services as a way to measure the program's success. While this enhancement is a positive step, it had the unintended consequence of reducing the number of overall MedsChecks performed by pharmacies because of the increased burden of additional documentation. For example, pharmacists are now required to enter the same patient information on three separate forms, which is redundant for the pharmacist and time-consuming, but necessary for the Ministry to collect important information. At the time the enhancements were launched, most pharmacies' systems did not have the ability to fill in these required fields with previously saved data, so they had to manually enter patient information on each form.

At the time of our audit, the Ministry was consulting with the Ontario Pharmacists Association about when pharmacies would acquire the software required to fill out MedsCheck forms electronically. We understand that most pharmacies are expected to acquire the required software, but an estimated time is not available.

The Ministry's plan is to evaluate the MedsCheck program at a future date when pharmacies' software is compliant with Ministry requirements. The Ministry has engaged a research group and the Ontario Pharmacists Association to develop an evaluation proposal. At the time of our audit, the Ontario Pharmacists Association confirmed that a survey of pharmacy software vendors was in progress to determine pharmacies' software compliance with Ministry requirements.

RECOMMENDATION 8

To help ensure that patients who need MedsCheck services are receiving them and that MedsCheck achieves its intended purposes, such as promoting healthier patient outcomes,

quality of life and disease self-management, we recommend that the Ministry of Health and Long-Term Care:

- develop performance measures and explore an approach to collect, monitor and analyze data to evaluate the program and assess whether or not MedsCheck services are helping to improve patient health outcomes; and
- work together with pharmacies and the Ontario Pharmacists Association to streamline the administrative process to submit MedsCheck claims.

MINISTRY RESPONSE

The Ministry supports the evaluation and monitoring of the MedsCheck program and identification of opportunities to streamline administrative processes for pharmacies to document the MedsCheck program process and outcomes. As of 2007, the submission of MedsCheck claims for payment of professional service fees to pharmacies by the Ministry has been fully automated and facilitated through the pharmacy software.

The Ministry and the Ontario Pharmacists Association (OPA) have engaged researchers to evaluate the program enhancements for the MedsCheck program that were implemented in late 2016. The evaluation will begin in early 2018 and solicit input from patients, prescribers and pharmacists to determine the effectiveness and impact of the changes on all three experiences.

In developing the enhanced MedsCheck program service and claims submission process, the Ministry worked with the pharmacy sector, particularly the OPA, which gave advice including information needed on forms, and liaised with the pharmacy software vendors to update the pharmacy management systems.

4.7 Ministry Pays Ontario Pharmacies Serving Long-Term-Care Homes Significantly More in Dispensing Fees than Other Provinces

Although Ontario pays low dispensing fees compared to the rest of Canada (see **Appendix 8**), we found that the Province pays significantly more to pharmacies that dispense drugs to residents of long-term-care homes than some other provinces.

In 2015/16, the Ministry paid an average $1,818 dispensing fee per recipient to pharmacies for claims submitted for residents of long-term-care homes. This is more than four times higher than the average dispensing fee of $422 for all other recipients over the age of 65. Dispensing fees paid to these pharmacies were about $190 million (out of a total $1.2 billion in 2015/16), covering approximately 105,000 recipients living in long-term-care homes. See **Figure 14** for a comparison of dispensing fees for residents of long-term-care homes versus all other recipients, by age category. In 2015/16, the group of patients with the highest amount of dispensing fees paid was long-term-care residents in the 65–69 year age bracket, at $2,195 per patient.

Frequency of dispensing, and therefore higher total dispensing fees, for long-term-care home

Figure 14: Comparison of Dispensing Fees for Pharmacies Serving Residents of Long-Term-Care Homes vs. All Other Recipients, by Age Group, 2015/16

Source of data: Ministry of Health and Long-Term Care

	Dispensing Fee per Recipient ($)	
Age	Long-Term Care Home	Other
0–64	2,011	409
65–69	2,195	220
70–79	2,033	280
80–89	1,882	433
90–100	1,689	599
100+	1,291	580

recipients are expected to be comparatively high because these recipients are generally older and sicker, and they change drugs more often than seniors not living in long-term-care homes. Often these recipients try a combination of drugs for a short time to assess the medication's effectiveness, and may alter dosages and/or drugs until they find the right medication plan.

Despite this, we found that other provinces pay pharmacies significantly less in dispensing fees for claims relating to residents of long-term-care homes. In British Columbia, pharmacies receive a monthly capitation fee (that is, a per person flat fee) of $43.75 for each occupied bed in a long-term-care home. If Ontario adopted this model, total dispensing fees paid to pharmacies serving long-term-care homes would be about $41 million ($43.75 x 12 months x 78,000 occupied long-term-care home beds), about $149 million less than what was actually paid in 2015/16. See **Figure 15** for a comparison of dispensing fees for long-term-care homes across provinces that have separate dispensing fee policies for residents of these homes. Manitoba has also adopted a capitation funding model for residents of long-term-care homes, where pharmacies receive between $47.80 and $48.70 per month for each occupied bed. Using this range, Ontario would pay between about $144 million and $145 million less than what was actually paid in 2015/16.

Ministry Does Not Limit Dispensing Fees for Pharmacies Serving Long-Term-Care Homes

Except in certain circumstances, the Ministry will pay a maximum of only two dispensing fees for a listed drug product in a 28-day period. As of October 1, 2015, for chronic-use drugs, the Ministry has not paid more than five dispensing fees in a year. However, these limitations do not apply to eligible recipients who reside in long-term-care homes. As a result, if pharmacies choose to supply drugs on a weekly basis they can charge four dispensing fees for each listed drug product per month. In 2015/16, the frequency of dispensing fees per drug per patient in long-term-care homes was approximately weekly, or equivalent to 52 times a year.

In 2015/16, there were approximately 50 pharmacies whose dispensing fees for residents of long-term-care homes were greater than the average of $1,820 per recipient. Of these, 15 were greater than $2,500 per recipient, five were almost $3,000 per recipient, and one was $3,200 per recipient. The Ministry has not looked into reasons why these pharmacies were dispensing higher than average amounts.

We noted that on October 1, 2015, the Ministry decreased the Ontario Drug Benefit dispensing fee paid to pharmacies for claims of residents of long-term-care homes by $1.26 (from $8.83 to $7.57). However, the Ministry did not consider whether the frequency of dispensing was reasonable and/or whether the existing funding model

Figure 15: Provincial Comparison of Dispensing Fees for Pharmacies Serving Residents of Long-Term-Care Homes
Prepared by the Office of the Auditor General of Ontario

	Dispensing Fee Amount	
Province	**Fee per Bed Served (Capitation)**	**Fee per Dispense**
Ontario	–	Between $7.57 and $11.99 per drug, depending on geographical location of pharmacy
British Columbia	$43.75 per month for each occupied bed	–
Manitoba	Between $47.80 and $48.70 per month for each occupied bed, depending on geographical area	–
Prince Edward Island	$76.52 per month for each occupied bed	–

Note: Provinces and territories not listed do not have specific policies for long-term-care home recipients.

encourages over-dispensing to recipients in long-term-care homes.

Dispensing fees cover services such as general operating costs (such as salaries and rent), stocking medication, maintaining medical records and sharing them with physicians, and discussing the patient's treatment.

RECOMMENDATION 9

To help ensure that the dispensing fees paid for recipients at long-term-care homes are reasonable, we recommend that the Ministry of Health and Long-Term Care conduct further analysis to determine the reasons for high dispensing fees for residents in certain homes and decide whether a change of dispensing policy, such as implementing limitations on frequency of dispensing fees, is required.

MINISTRY RESPONSE

The Ministry supports further analyses of dispensing fees for long-term-care homes. Effective October 1, 2015, the Ministry reduced the dispensing fees for claims paid for long-term-care home residents by $1.26 (from $8.83 to $7.57), resulting in a saving of almost $30 million annually. The Ministry will explore opportunities to improve efficiencies and value, including assessing the relationships between long-term-care homes and pharmacies.

4.8 Opioid-Related Overdoses and Deaths Continue to Rise

4.8.1 Pressing Issues Related to Use of Opioids

Opioids are potent narcotics used to treat pain. Prescribed appropriately, opioids are effective in relieving severe pain; however, their use can also result in significant harm such as addiction, overdoses and increased risk of death. Recent increases in death and overdose rates resulting from opioid use have caused Canadians and their governments to recognize that Ontario and other regions in Canada are experiencing an opioid crisis.

Despite the Ministry's efforts, described in **Section 4.8.2**, to address the opioid crisis, opioid-related overdoses and deaths are on the rise. Public Health Ontario reported the following trends:

- Emergency department visits due to opioid-related adverse events increased by 112% between 2005 and 2016, from 2,086 to 4,427 visits.
- Opioid-related deaths increased by 95% between 2005 and 2016, from 444 deaths to 865 deaths.

In May 2017, Health Quality Ontario, the provincial adviser on quality of health care, reported that the opioids being prescribed have shifted toward stronger types like hydromorphone and away from weaker opioids like codeine.

The report also noted that nearly two million people in Ontario, or about one in seven Ontarians, fill prescriptions for opioids every year. About 531,000 of these two million people are 65 and older, meaning that the Ontario Drug Benefit Program covers the drugs they are prescribed. (The Ontario Drug Benefit Program amounts to 92% of all Ontario Public Drug Programs' expenditures.) These seniors make up the majority of the approximately 720,000 patients whose opioid prescriptions the Ontario Drug Benefit Program covered in 2016/17.

The Ministry spent $157 million through the Ontario Drug Benefit Program on opioids for these 720,000 patients in 2016/17. This represents a slight increase of 6% in total expenditures and 8% in total number of patients since 2008/09. However, the number of prescriptions for opioids covered by the Ontario Drug Benefit Program increased by 62%, from 3.75 million in 2008/09 to 6.08 million in 2016/17, and the total quantity of opioids dispensed increased by 15% over the same period. We noted that more patients are now being prescribed opioids at more frequent intervals with smaller dosage per prescription, and also that the overall quantity of prescribed opioids covered

through the Ontario Drug Benefit Program has increased at a faster pace since 2008/09 than the number of patients receiving them. In addition, the total oral morphine equivalents dispensed for total high- and low-strength opioids continues to decline.

4.8.2 Ministry's Initiatives to Address Inappropriate and Unsafe Use of Opioids

Governments have the ability to potentially make a difference in areas such as controlling the availability of opioids; influencing how physicians and pharmacists prescribe and dispense the drugs; setting up harm-reduction strategies for opioid users; co-operating with other stakeholders to discover the source of drugs responsible for overdoses and deaths (prescribed drugs or street drugs); and working with stakeholders and others to understand the scope of the problem, in order to take further evidence-based measures. The Ministry has taken a number of actions to help address the growing concern over inappropriate opioid use and its health consequences, but the results are still unclear as overdoses and deaths continue to rise.

Detection and Preventive Measures

In April 2012, the Ministry implemented the Narcotics Monitoring System to collect dispensing data from all Ontario pharmacies for all narcotics and controlled substances, including drugs paid for by private insurance companies and by patients out-of-pocket. Data collected includes the name and strength of the drug, the patient who received the drug, the physician who prescribed the drug, and the quantity of drug dispensed.

In 2013, the Ministry established the Narcotics Monitoring Working Group, including representatives from the College of Physicians and Surgeons of Ontario, Ontario Medical Association, Ontario College of Pharmacists and Ontario Pharmacists Association. This working group reviewed and analyzed dispensing data from the Narcotics Monitoring System to understand prescribing and dispensing patterns of narcotics across the province. The working group also flagged some physicians and pharmacies with potential problematic prescribing and dispensing patterns to refer to their corresponding regulatory bodies for investigation.

In spring 2017, the Prescription Monitoring Leadership Roundtable was established with broader membership to play a leadership role in the identification and management of potentially high-risk use of narcotics and other monitored drugs in order to ensure patient safety.

Effective January 2017, several high-strength formulations of long-acting opioids were delisted from the Formulary as a way to encourage appropriate prescribing, and to limit opportunities for the inappropriate use and abuse of these drugs.

In April 2017, emergency rooms began reporting cases of opioid overdoses on a weekly basis to the Ministry. While the Ministry already collects this information on a quarterly basis, this new initiative ensures more timely data submissions and dissemination of reports. Data includes information on patient age and gender, whether the overdose was accidental or intentional, the number of patients who were dead on arrival, and the percentage of patients arriving by ambulance.

Life-Saving Measures

In August 2017, the Province announced $222 million in new investments over three years to enhance Ontario's Strategy to Prevent Opioid Addiction and Overdose. Among other things, the new investments are to include expanding the supply of an overdose-reversal drug (called naloxone) through emergency departments and expanding harm-reduction services, such as needle exchange programs and supervised injection sites.

Addiction Medicine Clinics for Opioid-Dependent Patients

The Ministry plans to expand the Rapid Access Addiction Medicine Clinics across the Province, which provide people with immediate and ongoing addiction treatment, counselling and other

mental health supports, and increasing access to community-based withdrawal management services and addictions programs. The Ministry is also working with the Centre for Addiction and Mental Health to expand addictions treatment and care provided in family health teams across the province.

4.8.3 More Information Is Needed for Better Decision-Making

Although the number of opioid-related overdoses and deaths is on the rise, the Ministry does not know the reasons for these overdoses and deaths, and also does not know whether the patients obtained the opioids from a pharmacist, with a legitimate prescription or not, or illegally on the street. The opioid overdoses and deaths reported by Ontario hospitals and/or the Office of the Chief Coroner for Ontario have not been linked to the Ministry's Narcotics Monitoring System to identify whether the patients had previously been prescribed or dispensed legal opioids or if they had taken illicit opioids. Having this knowledge would let the Ministry, and other areas of government such as law enforcement on drug trafficking, know where to devote resources.

Much of this uncertainty exists because the root problems behind the opioid crisis are many and complicated. Many variables such as social, environmental and psychological issues can contribute to inappropriate drug use. There is no single effective solution to help all people who are addicted to opioids or who might become addicted to the drugs they are prescribed to treat their medical conditions.

The use of opioids may start with prescriptions by physicians who are trying to help their patients to relieve pain. In some cases, patients become addicted; once a person is heavily dependent on opioids, it is very difficult to stop using them. Some physicians and other stakeholders have noted their concern that some of the patients who start to buy illegal opioids may have been on prescription opioids for some time and their physician has begun to reduce the dosage according to the recent Canadian Guideline for Opioids for Chronic Non-Cancer Pain. This unintended result—leading patients to seek out illegal drugs to treat their symptoms—further points out the limited effectiveness of the proposed solutions to this complex problem. When such patients are not able to handle their withdrawal symptoms and are not covered by any public or private drug plans, they may seek cheaper illegal drugs, such as heroin and fentanyl, on the street.

RECOMMENDATION 10

To help reduce the risk of inappropriate prescribing, dispensing and patient use of opioids, we recommend that the Ministry of Health and Long-Term Care:

- work with Ontario hospitals and the Office of the Chief Coroner for Ontario to link reported overdoses and deaths to the Ministry's Narcotics Monitoring System in order to identify whether those patients who suffered from overdoses or died obtained their opioids from legal or illicit sources; and
- consolidate, monitor and analyze data from its key initiatives to determine whether they are successful in reducing the number of individuals suffering from opioid addiction and overdoses, and the number of opioid-related deaths, and report publicly on how the initiatives are achieving their intended purposes.

MINISTRY RESPONSE

The Ministry supports safe and effective use of medicines to optimize health outcomes for patients. The opioid crisis in Ontario has highlighted the significance and need of the various parts of the health-care system to work together to address this critical issue and continue to implement Ontario's Strategy to Prevent Opioid Addiction and Overdose (Opioid Strategy). Recognizing the number of health-care providers

and institutions that can be involved, much has already been achieved.

The Narcotics Monitoring System (NMS) captures only those opioid prescription claims prescribed by an authorized prescriber, and subsequently dispensed by an authorized pharmacy. Illicit purchases and supplies of opioids obtained by Ontarians are not captured within the NMS. The Ministry is working with our partners to gather information and analyze the impact of both prescription and illicit opioid drug use in opioid-related overdoses and deaths. Linkage between the NMS and both emergency department visits for opioid overdose and coroner's data on opioid-related deaths is anticipated for 2018. The Ministry is exploring how this information and other opioid-related data can be best shared with the public in a meaningful manner.

The recommendations further emphasize that the Opioid Strategy is a multi-pronged approach involving many areas of the Ministry. The Ministry will continue to work with government partners to support the effective implementation of the Opioid Strategy, and continue to support ongoing and continuous evaluative efforts to determine the effectiveness and outcomes of the Opioid Strategy.

Appendix 1: Description of Drug Programs* in Selected Canadian Provinces

Prepared by the Office of the Auditor General of Ontario

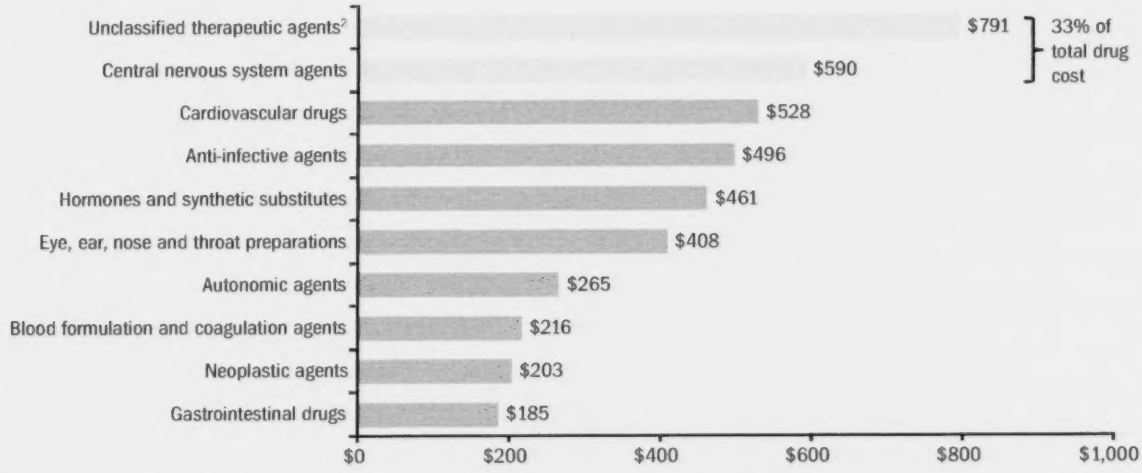
	Ontario	British Columbia	Alberta	Saskatchewan	Manitoba
Publicly funded drug program: income-based	**Trillium Drug Program** Residents who have high drug costs in relation to their household income; any residents who do not qualify under any of the other public drug plans or if their private insurance does not cover 100% of their prescription drug costs and they are not eligible for Ontario Drug Benefit coverage. **Ontario Drug Benefit Program** Recipients of Ontario Disability Support Program and Ontario Works.	**Fair PharmaCare** Universal Drug Plan–All residents are provided coverage for eligible prescription drugs and designated medical supplies, based on their net income. **Recipients of Income Assistance** Residents who are recipients of B.C. income assistance and medical benefits.	**Alberta Human Services Drug Benefit Programs with Supplement** Residents who are recipients of Alberta Human Services (e.g., Income Support, Adult Health Benefit, Assured Income for the Severely Handicapped, Child Health Benefit, Child Intervention Services, Family Support for Children with Disabilities) based on their income and needs. Coverage is provided through the specific program the recipient is enrolled in.	**Special Support Program** Residents whose drug costs are high in relation to their income. **Family Health Benefits** Low-income families with at least one child younger than 18. Eligibility is established through the Ministry of Social Services, in co-operation with Revenue Canada, based on the family income for the previous year and the number of children in the family. **Emergency Assistance** Residents who require immediate treatment with covered prescription drugs and are unable to cover their share of the cost may access one-time emergency assistance. The level of assistance provided is in accordance with ability to pay. The recipient is then required to submit a completed Special Support Application to the Drug Plan in order to receive future assistance. **Supplementary Health Benefits** Residents enrolled in a provincial income support program and residents of special care facilities eligible for the Seniors Income Plan. Per eligibility criteria, the recipient is enrolled in one of the four coverage plans available.	**Pharmacare** Eligible Manitobans whose income is seriously affected by high prescription drug costs. Coverage is based on both total family income and the amount paid for eligible prescription drugs. **Employment and Income Assistance Program** Residents who cannot support themselves or their family and are receiving financial aid from the Employment and Income Assistance Program may be eligible for drug benefits pursuant to the program.

	Ontario	British Columbia	Alberta	Saskatchewan	Manitoba
Publicly funded drug program: age-based or resident of a care setting	**Ontario Drug Benefit Program** Senior residents aged 65 or older, residents of long-term care homes and Homes for Special Care, and recipients of professional home services.	**Permanent Residents of Licensed Residential Care Facilities** Permanent residents of a licensed residential care facility receive coverage for the full cost of eligible prescription drugs.	**Seniors** Senior residents aged 65 or older and eligible dependents. Coverage includes cost of drugs minus a co-payment of 30%, up to a maximum of $25.	**Income supplement** Senior residents 65 and older qualifying for the Guaranteed Income Supplements and the Seniors Income Plan. Coverage consists of a reduced deductible on prescription drugs. **Seniors' Drug Plan** Senior residents aged 65 or older who have applied and qualified based on income. The plan covers drug costs greater than $25 per prescription.	**Personal Care Home/ Nursing Homes** Residents of personal care homes.
Publicly funded drug program: other			**Non-group plan** Optional subsidized program for residents younger than 65 and eligible dependents. Beneficiaries pay a monthly premium to receive coverage of eligible drug cost minus a co-payment of 30% up to a maximum of $25 per prescription drug.	**Children's Drug Program** Children under the age of 14. The plan covers drug costs greater than $25 per prescription.	
Residents not covered under a publicly funded drug program	• Residents younger than 65 who do not qualify for the Ontario Drug Benefit Program.		Residents younger than 65 who do not qualify for the Alberta Human Services Drug Benefit Programs with Supplement and who do not choose to opt into the Non-group plan.	• Senior residents aged 65 and older who do not qualify for Income Supplement or Seniors' Drug Plan. • Residents younger than 65 who do not qualify for the Family Health Benefits or Special Support Program.	Residents, including seniors aged 65 and older, who do not qualify for Pharmacare and for the Employment and Income Assistance Program, and who do not reside in a personal care home.

* Excludes other drug programs related to specific diseases and health conditions.

Appendix 2: Top 10 Therapeutic Drug Classes by Drug Cost,[1] 2015/16 ($ million)

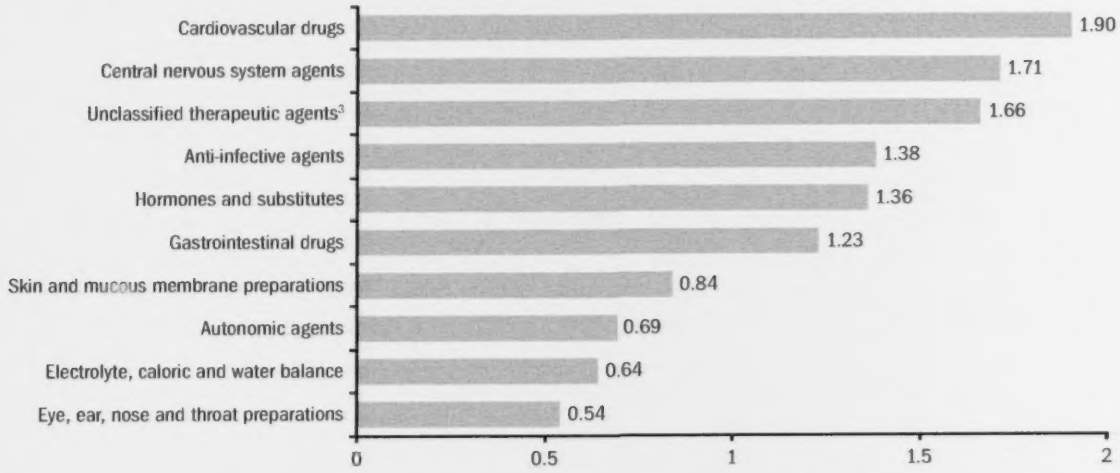
Source of data: Ministry of Health and Long-Term Care



1. Does not include New Drug Funding Program expenditures administered on behalf of the Ministry of Health and Long-Term Care (Ministry) by Cancer Care Ontario. Drug costs are based on the publicly available list prices and do not reflect the net prices paid by the Ministry under the product listing agreements with manufacturers.
2. An unclassified therapeutic agent is any drug that does not fit into any other category in the classification system. Some top drugs in this category include drugs used to treat osteoporosis, Parkinson's disease, plaque psoriasis, rheumatoid arthritis, Pompe disease, multiple sclerosis, Crohn's disease and multiple myeloma. This unclassified category is used in the American Hospital Formulary System, a classification system used internationally as well as by Health Canada.

Appendix 3: Top 10 Therapeutic Drug Classes[1] by Number of Users, 2015/16[2] (million users)

Source of data: Ministry of Health and Long-Term Care



1. Based on the classification system of the American Hospital Formulary Service of the American Society of Health-System Pharmacists (AHFS-ASHP).
2. Total number of users 2015/16: 3 million.
3. An unclassified therapeutic agent is any drug that does not fit into any other category in the classification system. Some top drugs in this category include drugs used to treat osteoporosis, Parkinson's disease, plaque psoriasis, rheumatoid arthritis, Pompe disease, multiple sclerosis, Crohn's disease and multiple myeloma.

Appendix 4: Top 10 Drugs by Drug Cost,[1] 2015/16 ($ million)

Source of data: Ministry of Health and Long-Term Care

Rank	Drug Name	Class	Drug Cost ($ million)	% Total Drug Cost
1	Ranibizumab (Lucentis)	Eye, ear, nose and throat	278	**6.3**
2	Ledipasvir and sofosbuvir (Harvoni)	Anti-infective agents	202	**4.6**
3	Diagnostic agent–diabetes	Diagnostic agents	108	**2.5**
4	Infliximab (Remicade)	Unclassified[2]	104	**2.4**
5	Salmeterol xinafoate and fluticasone propionate (Advair)	Autonomic agents	85	**1.9**
6	Duloxetine (Cymbalta)	Central nervous system	77	**1.7**
7	Lenalidomide (Revlimid)	Unclassified[3]	73	**1.7**
8	Sitagliptin phosphate monohydrate (Januvia)	Hormones and substitutes	72	**1.6**
9	Insulin glargine (Lantus)	Hormones and substitutes	67	**1.5**
10	Metformin and sitagliptin (Janumet)	Hormones and substitutes	66	**1.5**
Total			**1,132**	**25.7**

1. Drug cost is based on the publicly available list price and does not reflect the net price paid by the Ministry of Health and Long-Term Care under the product listing agreements with manufacturers.
2. This drug is primarily funded for rheumatology and inflammatory bowel disease.
3. This drug is primarily funded for myelodysplastic syndromes.

Appendix 5: Comparison of Medication Review Programs across Canada*

Prepared by the Office of the Auditor General of Ontario

	Ontario	British Columbia	Alberta	Saskatchewan	Nova Scotia	New Brunswick	Prince Edward Island	Newfoundland and Labrador
Initial Review	**MedsCheck Annual** • $60 per patient • Publicly funded for all residents who meet the eligibility criteria (with over 3 prescribed medications) • Maximum 1 annually **MedsCheck for Diabetes Annual** • $75 per patient • Publicly funded for all residents with diabetes • Maximum 1 annually **MedsCheck at Home** • $150 per patient • Publicly funded for all residents who are unable to attend the pharmacy in person and taking more than three prescribed medications for a chronic condition • Maximum 1 annually **MedsCheck for Long-Term Care** • $90 per patient • Publicly funded for all residents who are in long-term care homes • Maximum 1 annually	**Medication Review – Standard** • $60 per patient • Publicly funded for all residents who meet the eligibility criteria (with over 5 prescribed medications) • Maximum 2 annually, 6 months apart **Annual Medication Review – Pharmacist Consultation** • $70 per patient • Undertaken only when a medication management issue has been identified by a pharmacist during a standard Medication Review	**Comprehensive Annual Care Plan (ACCP)** • $100 or $125 for a pharmacist with additional prescribing authority (APA) • Publicly funded for all residents who meet the eligibility criteria (with at least two chronic health conditions or one chronic health condition and other risk factors) • Maximum 1 annually **Standard Medication Management Assessment** • $60 or $75 for a pharmacist with APA • Publicly funded for residents who do not meet the eligibility criteria for ACCP but have at least one chronic health condition and are taking three or more medications • Maximum 1 annually	**Medication Assessment** • $60 per patient • Publicly funded to Seniors (65+) who are beneficiaries of a provincial drug plan only • Maximum 1 annually	**Basic Medication Review** • $52.50 per patient • Publicly funded for beneficiaries of a provincial drug plan only. All other patients may receive this service for a fee • Maximum 1 annually **Advance Medication Review** • $150 per patient • Publicly funded for seniors (65+) who are beneficiaries of a provincial drug plan. All other seniors may receive this service for a fee • Maximum 1 annually	**PharmaCheck** • $52.50 per patient • Publicly funded for low-income seniors (65+) and other low-income beneficiaries of a provincial drug plan only • Maximum 1 annually	**Medication Review** • $52.50 per patient • Publicly funded for beneficiaries of provincial drug plan only • Maximum 1 annually **Diabetic Medication Review** • $65 • Publicly funded for diabetic residents • Maximum 1 annually	**Medication Review** • $52.50 per patient • Publicly funded for beneficiaries of provincial drug plan only • Maximum 1 annually **Medication Review for Chronic Obstructive Pulmonary Disease** • $52.50 per patient • Publicly funded for senior (65+) beneficiaries of provincial drug plan

	Ontario	British Columbia	Alberta	Saskatchewan	Nova Scotia	New Brunswick	Prince Edward Island	Newfoundland and Labrador
Follow-up Review	**MedsCheck Follow-up (Annual and Diabetes)** • $25 • No maximum (available upon change in patient medication profile, or as scheduled by a pharmacist) **MedsCheck for Long-Term Care Follow-up** • $50 • Maximum 4 annually	**Medication Review Follow-up** • $15 per patient • Maximum 4 annually	**Follow-up:** • $20 or $25 for pharmacists with APA • No maximum (available upon change in patient medication profile, or as scheduled by a pharmacist)	**Medication Assessment Follow-up** • $20 per patient • Maximum 2 annually	**Medication Review Follow-up:** • $20 per patient • Maximum 2 annually	Not applicable	**Medication Review Follow-up:** • $20 per patient • Maximum 4 annually **Diabetic Medication Review Follow-up:** • $25 per patient • Maximum 4 annually	Not applicable

* Only includes provinces where comparable, publicly funded medication review programs exist.

Appendix 6: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Listing and/or funding decisions on drugs are evidence-based, cost-effective, and made in a timely manner.
2.	Negotiations with drug manufacturers are conducted to achieve the best price possible for publicly funded drugs.
3.	Eligibility is assessed in a timely, accurate and consistent manner to ensure coverage of drugs and pharmacy services are provided to eligible recipients.
4.	Claims for drugs and pharmacy services submitted by pharmacies and other dispensers are for eligible recipients and paid in accordance with relevant legislation, policies and agreements. Effective monitoring and enforcement mechanisms are in place to ensure payments to pharmacies and other dispensers are appropriate.
5.	Drug dispensing patterns are analyzed and used to improve patient care and medication use.
6.	Timely, accurate and complete data on the effectiveness of the Ministry of Health and Long-Term Care's (Ministry's) drug programs, including payments for pharmacy services, is collected, analyzed and used for decision-making and program improvements. Key performance measures relevant to the drug programs are reported publicly to Ontarians.
7.	The Ministry reviews and assesses the overall drug funding and procurement processes on a timely basis within the health sector, including hospitals, to identify opportunities for additional cost savings.

Appendix 7: Drug Approval and Funding Process for Brand-Name Drugs in Canada and Ontario, Effective April 1, 2016

Prepared by the Office of the Auditor General of Ontario

Drug Review for Sale in Canada

- Drug manufacturer submits scientific evidence of the product's safety, efficacy and quality to be reviewed by Health Canada,[1] which decides whether to approve the drug for sale in Canada.

Health Technology Assessment

National		Ontario
Non-cancer Drugs	**Cancer Drugs**	**Drugs Previously Reviewed, or Not Eligible for Review, by the Common Drug Review or the pan-Canadian Oncology Drug Review**
• Drug manufacturers submit clinical and economic evidence to justify public funding to be reviewed by the expert advisory committee to the Common Drug Review,[2] which decides whether to recommend that federal/provincial/territorial drug plans fund the drug for the indications requested.	• Drug manufacturers submit clinical and economic evidence to justify public funding to be reviewed by the expert review committee of the pan-Canadian Oncology Drug Review,[2] which decides whether to recommend that federal/provincial/territorial drug plans fund the drug for the indications requested.	• On a case-by-case basis, the Ministry of Health and Long-Term Care (Ministry) may seek additional advice from the Committee to Evaluate Drugs[3] on a drug that was previously reviewed by the Common Drug Review or pan-Canadian Oncology Drug Review. • The Committee to Evaluate Drugs also reviews Ontario-specific drug funding requests that are not eligible for the national process under the Common Drug Review or pan-Canadian Oncology Drug Review, such as line extensions of already marketed drugs. • The Committee to Evaluate Drugs conducts assessments of the drugs based on scientific evidence, clinical data, patient input and cost-effectiveness compared to existing funded treatments in Ontario, and recommends to the Ministry whether or not the drugs should be listed on the Ministry's Formulary, funded through the Exceptional Access Program on a case-by-case basis, or not funded at all.

Negotiation

- Based on the final recommendation issued by the Common Drug Review and pan-Canadian Oncology Drug Review and/or Ontario's Committee to Evaluate Drugs, the Ministry may enter into negotiations with the manufacturer through the pan-Canadian Pharmaceutical Alliance collectively with other jurisdictions, or individually if it is an Ontario-specific drug funding consideration. The outcome of the negotiations will help inform the final funding decision.

Final Decision

The Ministry's Executive Officer of the Ontario Public Drug Programs makes final drug funding decisions based on various factors such as:

- recommendations and advice from various committees and advisory bodies;
- patient and societal impact, and public interest; and
- budgets for the drug programs and the outcomes of negotiations for product listing agreements with manufacturers.

1. Health Canada is a federal agency that reviews and authorizes a drug before it can be marketed in Canada. It bases its authorization on scientific evidence concerning a drug's safety and efficacy in one or more specific indications (e.g., in the treatment of one or more particular diseases) as well as the quality of the drug product. Health Canada does not consider drug prices or comparative cost-effectiveness when granting market authorization. If Health Canada approves a drug, it issues the drug a Drug Identification Number.
2. Drug manufacturers must also file a submission to either the Common Drug Review (for non-cancer drugs) or the pan-Canadian Oncology Drug Review (for cancer drugs) to justify public funding for the drug based on clinical and economic evidence. Both the Common Drug Review and pan-Canadian Oncology Drug Review are administered by the Canadian Agency for Drugs and Technologies in Health, an independent, not-for-profit organization established by federal, provincial and territorial governments. It evaluates submissions from drug manufacturers and makes evidence-based reimbursement recommendations to Canada's federal, provincial and territorial public drug plans (with the exception of Quebec).
3. The Committee to Evaluate Drugs is the Ministry's own expert committee that provides advice to the Executive Officer of the Ontario Public Drug Programs on whether or not a drug should be listed on the Ontario Drug Benefit Formulary or funded through the Exceptional Access Program on a case-by-case basis. The Committee conducts assessments based on scientific evidence, clinical data, patient input and cost-effectiveness compared to existing funded treatments in Ontario.

Appendix 8: Comparison of Dispensing Fees among Selected Canadian Provinces and Territories as of March 31, 2017

Prepared by the Office of the Auditor General of Ontario

Jurisdiction	Maximum Dispensing Fee
Ontario	$8.83, $9.93, $12.14 or $13.25 depending on geographic location
British Columbia	$10.00
Alberta	$12.30
Saskatchewan	$11.40
Manitoba	The professional fee for Pharmacare is equal to the amount regularly charged by a pharmacist to persons who are responsible for paying the fee without reimbursement. The Employment and Income Assistance Program has a maximum professional fee of $6.95.
New Brunswick	$11.00*
Nova Scotia	$11.65
Prince Edward Island	$12.36
Newfoundland and Labrador	The professional fees for the Foundation Plan, Access Plan and Assurance Plan are: • $11.96 for drug costs between $0 and $49.99 • $23.93 for drug costs between $50 and $249.99 • $50 for drug costs of $250+ The professional fees for the 65Plus Plan are: • $12 for drug costs between $0 and $249.99 • $40 for drug costs of $250+
Yukon Territory	$8.75

* The dispensing fee is $9.50 for drugs for opioid dependence.

Chapter 3

Section
3.10

Ministry of Health and Long-Term Care

Public Health: Chronic Disease Prevention

1.0 Summary

Public health works to prevent and protect individuals from becoming sick by promoting healthy lifestyle behaviours and preventing the spread of diseases. One of public health's functions is to prevent chronic diseases. Chronic diseases are those that persist for a long time and generally cannot be prevented by vaccines or cured by medication. Major chronic diseases include cardiovascular and respiratory diseases, cancer and diabetes.

In Ontario, the number of people living with these chronic diseases has been on the rise. For example, the prevalence, that is, the number of cases of a disease in a population at a given time, increased from 2003 to 2013 in the following four health conditions:

- diabetes increased by 65%;
- cancer by 44%;
- high blood pressure by 42%; and
- chronic obstructive pulmonary disease (a type of respiratory disease) by 17%.

People living with chronic diseases may have a poorer quality of life than the general population.

Research from the Institute for Clinical Evaluative Sciences, a not-for-profit research institute that conducts research on Ontario's health-related data, shows that chronic diseases place a significant cost burden on the health system. According to its 2016 report, four modifiable risk factors that contribute to chronic diseases—physical inactivity, smoking, unhealthy eating and excessive alcohol consumption—cost Ontario almost $90 billion in health-care costs between 2004 and 2013.

Fortunately, most chronic diseases are preventable or their onset can be delayed by limiting these modifiable risk factors. Ontario has focused on and has had some success in reducing smoking—between 2003 and 2014, the smoking rate decreased by just under five percentage points from 22.3% to 17.4%. And, according to Cancer Care Ontario, the decrease and stabilization of the incidence rate—the number of new cases of a disease that develop in a given period of time—of small cell lung cancer, a condition almost entirely caused by tobacco use, may be the result of the historical decline in tobacco use in Ontario.

However, Ontario has not placed a similar focus on addressing the other modifiable risk factors to assist in reducing the burden of chronic diseases—even though research has noted that physical inactivity contributed more to health-care costs than smoking.

There are opportunities for the Ministry of Health and Long-Term Care (Ministry), Public Health Ontario (a provincial agency tasked with providing scientific and technical advice to government on public health issues) and the 36 public health units (organizations accountable to the

Province and mostly funded by the Ministry that have a mandate to plan and deliver programs and services to reduce the burden of chronic diseases) to work better together to address the key modifiable risk factors of chronic diseases.

Similarly, the Ministry can work better with other provincial ministries—such as education, environment and transportation—to develop public policies that would take into account their effect on the health of the population, which would further promote a better quality of health for Ontarians.

We found that significant inefficiencies exist across the public health units because there are limited formal systems in place to co-ordinate their activities and share best practices, with many public health units separately conducting research and obtaining needed data.

As well, the Ministry does not fully measure public health units' performance in chronic disease prevention. Specifically, the Ministry does not measure the public health units' performance and activities in the areas of physical activity, healthy diet and healthy weight, and has not set any measurable goals to improve overall population health. Consequently, it cannot ensure that public health units and all the other recipients of provincial funding on chronic disease prevention are making progress in helping Ontarians live longer and healthier lives.

In addition, following a number of previous Ministry-commissioned studies that identified the need to improve the public health service delivery model, the Minister of Health and Long-Term Care appointed an Expert Panel on Public Health to provide advice on the optimal structural, organizational, and governance changes needed for public health as part of transforming the health-care system. The Ministry released the Expert Panel's report—*Public Health Within an Integrated Health System*—in July 2017 that included a number of recommendations, including one on reducing the 36 public health units to 14 regional public health entities to better deliver public health services. The Ministry was undertaking consultation on the Expert Panel's recommendations when we completed our audit.

Our other significant concerns are as follows:

- **Ontario has no overarching chronic disease prevention strategy**. The Province has no overarching policy framework on chronic disease prevention to guide overall program planning and development. Such a framework would outline the goals and objectives of chronic disease prevention programming, provincial targets that focus on health outcomes, and the roles and responsibilities of the various parties involved in planning, delivering and evaluating public health programs designed for preventing chronic diseases. In contrast, British Columbia has established long-term goals and targets to drive system-wide action and improve health outcomes. As well, it has a policy framework for using evidence to design interventions that address the major risk factors for chronic diseases. As will be noted, British Columbians already generally live longer than Ontarians.
- **Some public health units faced challenges in accessing schools to provide health promotion programs**. Because changing health behaviours early, as opposed to later in life, is more effective and has a more long-lasting impact, public health practitioners often target children as a priority population to deliver healthy living programs. While the public health units have a mandate to work with schools, the lack of co-ordination at the provincial level to help deliver public-health programs and services at the local level in schools has limited the public health units' ability to influence healthy living behaviours in young children. As a result, public health units spend resources to build relationships and persuade schools to participate in effective public health programs instead of on actual service delivery.
- **No consistent provincial leadership to co-ordinate public health units' updating of evidence, sharing of best practices, and**

development of monitoring systems on health promotion programs. Because no provincial body actively updates evidence, shares best practices, and develops surveillance systems on health promotion programs on a regular basis to help the public health units design programs to meet their local needs, public health units have undertaken research and developed local solutions independently. We noted significant duplication of effort and instances of variation in the depth of the research and type of information gathered. For example, two-thirds of public health units reported having independently reviewed evidence and best practice on school-based programs that promote healthy weights, healthy eating or physical activity. As well, public health units tend to work individually to develop systems to collect data, and the type of data collected differed among these public health units, resulting in data not being comparable.

- **Not all public health units have access to necessary epidemiological data**. Having complete and accurate data is important because the public health units are required to assess and monitor population health and evaluate the effectiveness of their programs under the Ontario Public Health Standards. We found that public health units have not all been able to access complete and current epidemiological data to study the patterns, causes and effects of health and disease within populations. For example, Ontario does not have enough data on children and Indigenous populations to meet local needs for population health assessment and surveillance, program planning and evaluation. In addition, no central body is responsible for collecting and disseminating this data to public health units, resulting in some public health units not having access to such information. As well, some units may not be using current data to plan programs because Statistics Canada's Canadian Community Health Survey does not provide adequate sample sizes for local analysis within these public health units' areas. In his 2015 report, the Chief Medical Officer of Health also highlighted the importance of local data and recommended that the Province undertake a provincial population health survey that collects data at the local levels.
- **Public health units individually indicated that they have limited capacity to perform epidemiological analysis to help guide and monitor their programs**. Even in instances where the data is available, some public health units indicated that they do not have the required time and/or staff expertise to review and analyze epidemiological data. The Ministry did not establish specific standards on how much epidemiological work the public health units have to undertake for chronic disease prevention, or assess whether certain epidemiological analyses should be conducted centrally. As a result, there is no assurance that public health units that lack sufficient epidemiologist resources have conducted the proper analysis of population data to help guide and monitor their programming.
- **At some public health units, program evaluations were not conducted to determine whether their programs had a positive impact**. We noted cases where some public health units did not evaluate new programs, or measure the programs' effectiveness, as required by the Ministry. For example, three of the four health units we visited have been delivering school-based programs without having conducted any evaluation of these programs. We also found that public health units have a different understanding of what constitutes an evaluation, and apply different levels of rigour on their own evaluations, because the Ministry has not specified a particular evaluation method. Furthermore, one study conducted in 2015 by public health units

themselves has indicated that most health units do not have the necessary capacity to evaluate programs. Without these evaluations, public health units cannot demonstrate that their programs have been effective in improving the health outcome of their population. As well, public health units did not always define and measure whether they have achieved the objectives of their chronic disease prevention programs. For example, in one of the four public health units we visited, we noted that it had an objective of reducing the consumption of sugar-sweetened beverages in its geographic area but had not measured the change in consumption of these beverages.

- **Current provincial performance indicators do not fully measure public health units' performance in preventing chronic diseases and promoting health**. There are no indicators to measure public health units' achievement toward reducing key risk factors, such as physical inactivity, unhealthy eating and unhealthy weights. As well, public health staff noted that results in a number of performance indicators, such as the rate of youth that have not smoked a whole cigarette and the rate of adults that consume alcohol above the Low-Risk Drinking Guidelines, cannot be solely attributed to the effort of the public health units. These indicators involve both the work of public health units and others, such as schools and community-based organizations. As a result, using these performance indicators, the Ministry could not sufficiently measure whether public health units were effective in providing chronic disease prevention programs and services in their local community.
- **Ministry has started to address funding equity but full implementation of the needs-based funding model may take up to 10 years**. The Ministry developed a new funding model to identify an appropriate share for each public health unit following a recommendation in 2013 by the Funding Review Working Group. In 2015, the Ministry started applying this new model, but has not set a target date for when the public health units will reach their modelled share of funding. The Ministry estimated it could take 10 years to ensure public health funding is more equitably allocated to all health units, assuming a 2% growth rate and that future incremental funds are targeted to units that do not yet receive modelled share of funding. As a result, some public health units may continue to experience funding inequities.

This report contains 11 recommendations, consisting of 22 actions, to address our audit findings.

Overall Conclusion

The Ministry of Health and Long-Term Care (Ministry) does not have the needed processes and systems in place to ensure that public health units plan and deliver chronic disease prevention programs and services in a cost-effective manner. As well, the Ministry has not sufficiently supported co-ordination among the provincial ministries or public health units. Such co-ordination would help public health units plan and deliver programs more efficiently.

The Ministry also has not ensured whether Public Health Ontario provides the necessary and sufficient support to the public health units with scientific and technical advice in the areas of population health assessment, epidemiology and program planning and evaluation.

Further, the Ministry does not guide public health units on a methodology to evaluate their programs. The public health units need a methodology to evaluate, measure and report on whether their chronic disease prevention and health promotion programs have been effective in reducing the cost burden on the health-care system and improving population health outcomes.

OVERALL MINISTRY RESPONSE

The Ministry of Health and Long-Term Care (Ministry) welcomes the recommendations contained in the Auditor General's report and the report's emphasis on the prevention of chronic diseases. Chronic diseases carry a significant burden of illness in Ontario and around the world, and can often be prevented or reduced by addressing modifiable risk factors such as unhealthy eating, physical inactivity, tobacco use and harmful use of alcohol.

Ontario has made progress in the area of chronic disease prevention. For instance:

- The Province's Smoke-Free Ontario Strategy, which aims to achieve the lowest smoking rates in Canada, has greatly reduced tobacco use and lowered health risks to non-smokers in Ontario over the past 11 years. As a result of concerted efforts, the Province has decreased the smoking rate from 20.9% in 2005 to 17.4% in 2014.
- The Healthy Kids Strategy, a cross-government initiative launched in 2013, focuses on key interventions to support healthy weights among children and youth through increased physical activity and healthy eating. This strategy includes new provincial legislation requiring the posting of calories on menu boards at regulated food premises, and implementation of the Healthy Kids Community Challenge in 45 communities across Ontario.
- The Ministry and public health units are actively involved in promoting the Low-Risk Alcohol Drinking Guidelines to support a culture of moderation and provide consistent messaging about informed alcohol choices and responsible use. Over 65 stakeholders have been consulted to inform the development of a provincial Alcohol Strategy.
- The Ministry has embarked on a process to modernize the current Ontario Public Health Standards with an enhanced focus on outcomes, accountability, evaluation, transparency and collaboration. Within the modernized standards, which are expected to come into effect January 1, 2018, chronic disease prevention programming will be responsive to local needs, informed by evidence, and supported by an integrated health system.

Building on these achievements, the Ministry is currently developing an integrated provincial strategy to further increase adoption of healthy living behaviours and reduce risk factors for chronic diseases across the lifespan, including unhealthy eating, physical inactivity, harmful use of alcohol, and tobacco use, while recognizing the impact of social determinants of health. These audit recommendations will contribute significantly to the development of the provincial strategy, which aims to promote health, prevent disease and help all Ontarians live long, healthy lives.

2.0 Background

2.1 Overview of Public Health

Public health focuses on the health and well-being of the whole population through the promotion and protection of health and the prevention of illness. Public health involves a wide variety of activities such as:

- inspecting food premises and tobacco retailers;
- providing immunizations to children and adults;
- investigating cases and outbreaks of infectious diseases to prevent further spread;
- providing support to new parents for healthy babies;
- collecting and analyzing epidemiological data to assess the health of the population; and
- promoting healthy living programs to prevent chronic diseases, such as cardiovascular disease and cancer.

In Ontario, the *Health Protection and Promotion Act* (Act) is the primary legislation that governs the delivery of public health programs and services in the province. The purpose of the Act is to provide for the organization and delivery of public health programs and services, the prevention of the spread of disease, and the promotion and protection of the health of the people of Ontario. Other legislation that plays a role in public health includes the *Immunization of School Pupils Act* and *Smoke-Free Ontario Act*.

2.1.1 The Public Health System in Ontario

The public health system in Ontario is an extensive network of government, non-government, and community organizations operating at the local, provincial and federal levels. Non-government organizations include not-for-profit groups that advocate for awareness, prevention and treatment of various chronic diseases. Community organizations include groups like community centres that deliver nutrition programs to improve food skills and knowledge.

At the provincial level, the key players involved in public health are the Ministry of Health and Long-Term Care (Ministry) and Public Health Ontario. The Ministry co-funds 36 public health units across the province with municipalities to directly provide public health services to Ontarians. While the Ministry is the main funder of the public health units, public health units also receive funds from other sources, including the Ministry of Children and Youth Services, Health Canada and community organizations.

Ministry of Health and Long-Term Care

The Population and Public Health Division (Division) of the Ministry is responsible for developing provincial public health initiatives and strategies, and funding and monitoring public health programs delivered by public health units. It also works to ensure that appropriate actions are taken to respond to urgent and emergency situations.

The Province's Chief Medical Officer of Health reports directly to the Deputy Minister of Health and Long-Term Care, not through the Division. The Chief Medical Officer's responsibilities include the following:

- provides clinical and public-health practice leadership and advice to the public-health sector;
- identifies and assesses risk and opportunities for improvement in public health in Ontario;
- communicates directly with the public with respect to public health, such as on the risk of the Zika virus to Ontarians; and
- reports annually to the Legislature on the provincial state of public health.

Public Health Ontario

The Ontario Agency for Health Protection and Promotion (also known as Public Health Ontario) began operation in 2008 as a scientific and technical organization mostly funded by the Ministry. The organization was established through the *Ontario Agency for Health Protection and Promotion Act, 2007* as a result of recommendations after the 2003 Ontario outbreak of Severe Acute Respiratory Syndrome (SARS).

Public Health Ontario provides scientific and technical advice and support activities, such as population health assessment, public health research, surveillance, epidemiology, and program planning and evaluation to protect and improve the health of Ontarians. It generates the public health science and research expertise in communicable diseases, environmental health, and chronic diseases and injuries, and conducts surveillance and outbreak investigations. It also operates the province's 11 public health laboratories, which offer such services as clinical and environmental testing, bioterrorism testing, and evaluation of new laboratory technologies and methodologies. Some of these functions rested with the Ministry prior to the establishment of Public Health Ontario.

Public Health Units

Ontario's 36 public health units provide their communities with a variety of services and resources, which differ to meet local needs. Services and resources may include keeping a file on children's school immunization records, providing safe food handling certification, beach water warnings for high bacteria levels, online physical and mental health information—including preventing chronic diseases—and issuing extreme heat and cold alerts.

Each public health unit serves a population of various sizes and profile, ranging from, for example, about 34,000 people in Timiskaming to almost three million people in Toronto. **Appendix 1** shows the boundaries of the 36 public health units in Ontario and the estimated population within each unit.

Each of the 36 public health units is governed by a local Board of Health. The Boards of Health are accountable for meeting provincial standards under the *Health Protection and Promotion Act* (Act), and each is administered and led by a Medical Officer of Health. In each region, each Medical Officer of Health reports public health and other matters to the local Board of Health.

Governance models vary considerably across the 36 public health units. The Act does not prescribe a standard governance model that would apply to all Boards of Health; municipalities in Ontario follow different organizational structures, and the Boards of Health across the province were established at different times throughout history. But all Boards of Health are municipally controlled to varying degrees—some are autonomous boards with members appointed by municipalities and others are part of the structure of the municipal or regional government. Depending on the governance model, board members could be provincially appointed, municipally appointed, elected municipal or regional councillors, or the general public.

Each public health unit has a Public Health Funding and Accountability Agreement with the Ministry, which sets out the terms and conditions governing its funding. The agreement has no expiry date and is amended annually to include new requirements and performance targets. The Ontario Public Health Standards (explained in **Section 2.1.2**) set the minimum requirements for the delivery of public health programs and services and the Act provides the authority to implement the standards, including outlining the roles and responsibilities between the public health units and the Ministry.

2.1.2 Ontario Public Health Standards

The Ministry develops guidelines for delivering public health programs and services as required by the Act. Every Board of Health is required to comply with these guidelines, called the Ontario Public Health Standards. These 14 standards, which were originally developed in 2008 and last revised in March 2017, are included in a 70-page document. The standards set out the minimum requirements that the public health units must adhere to in delivering programs and services.

Altogether, the 14 standards include one foundational standard that covers population health assessment, surveillance, research and sharing of information, and program evaluations. The other 13 standards fall within the following five broad categories:

- chronic diseases and injuries (such as chronic disease prevention and prevention of injuries and substance misuse);
- family health (such as reproductive health and child health);
- emergency preparedness;
- environmental health (such as food safety and safe water); and
- infectious diseases (such as infectious disease prevention and prevention of tuberculosis, rabies and vaccine-preventable diseases).

Appendix 2 shows a summary of the 14 standards, their goals and some examples of the requirements on the public health units for each standard.

2.1.3 Funding Structure of Public Health Programs and Services

Under the Act, provincial funding toward public health is not mandatory and is instead provided as per Ministry policy. However, the Act requires obligated municipalities (any upper-tier municipality or single-tier municipality that is situated, in whole or in part, in the area that comprises the public health unit) to pay the expenses incurred by or on behalf of the public health units to deliver the health programs and services set out in the Act, the regulations and the guidelines.

Even so, the Ministry funds public health units' programs either partially or fully, depending on the program. It funds:

- up to 75% of mandatory programs. The municipalities fund the remaining 25% or more if the actual expense is beyond the approved amount; and
- 100% of priority provincial programs, such as the Smoke-Free Ontario Strategy, the Infectious Disease Control Initiative, the Diabetes Prevention Program, Medical Officer of Health/Associate Medical Officer of Health Compensation Initiative, the Northern Fruit and Vegetable Program, Healthy Smiles Ontario Program, and Harm Reduction Programs.

Some public health units offer only provincially mandated programs, but others can provide additional public health services that are funded by their municipalities. For example, the City of Toronto funds a dental program for low-income seniors and adults, as well as for children and youth who are not eligible for other dental programs.

On an annual basis, the Ministry updates the schedules in the Public Health Funding and Accountability Agreement with each Board of Health that governs the public health unit to reflect updated funding allocations, new policies and guidelines, new reporting requirements, and updated performance indicators, baselines and targets.

On average, over the last 10 years, the Ministry has spent about $1 billion annually on public health-related programs and services, or about 2% of the overall provincial health expenditures. This spending is allocated to many parties, including public health units, not-for-profit organizations and Public Health Ontario.

2.2 Importance of Promoting Healthy Living and Preventing Chronic Diseases

2.2.1 Chronic Diseases and Their Impact on People and Health-Care Costs

Chronic diseases are those that persist for a long time. They generally cannot be prevented by vaccines or cured by medication. Major chronic diseases include cardiovascular and respiratory diseases, cancer and diabetes. According to Public Health Ontario, chronic diseases accounted for about three-quarters of all deaths in Ontario in 2012, or 68,944 of 90,525 deaths.

People living with chronic diseases may have a poorer quality of life than the general population. For example, people living with diabetes have a higher risk of toes, feet and lower leg amputation, and kidney and eye complications; and many people with cancer have to undergo multiple types of procedures, such as surgery, radiation, and drug therapy, to treat or control the condition.

Chronic diseases have a significant impact on health-care spending. Using data from 2008, the Ministry estimated that major chronic diseases and injuries accounted for about 31% of direct, attributable health-care costs in Ontario. This is a significant cost to focus on given that Ontario's health-care expenditures have been increasing—by about 47% in the last 10 years between 2007/08 and 2016/17 from $38.1 billion to $56.0 billion.

Preventing chronic diseases helps reduce the burden on the health-care system and promotes a better quality of life. The Institute for Clinical Evaluative Sciences, which is a not-for-profit

research institute that conducts research on Ontario's health-related data, released in April 2016 an Ontario-based study that looked at the impact of the modifiable risk factors of smoking, alcohol consumption, poor diet, and physical inactivity on health-care expenditure in Ontario. To say that a risk factor is 'modifiable' means that measures can be taken to change them and their effect on a person's health can be prevented and modified through a person's behaviour, such as not smoking, being physically active and eating healthy foods.

The Institute's study indicated that 22% of the Province's spending on health care was attributable to those four modifiable risk factors associated with chronic diseases. The study also found that those risk factors cost Ontario almost $90 billion in health-care costs, including hospital care, drugs and community care, between 2004 and 2013.

A report on disease prevention released in 2009 by Trust for America's Health, a U.S. non-profit organization that advocates in support of effective policies and resources for public health programs, concluded that money invested today on proven community-based disease prevention programs—specifically those that result in increased levels of physical activity, improved nutrition, and a reduction in smoking—could save significant funds in future spending. The report found that for every $1 invested, the return on investment is 6.2 within 10 to 20 years. This return on investment does not include the significant gains that could be achieved in worker productivity, reduced absenteeism at work and school, and enhanced quality of life.

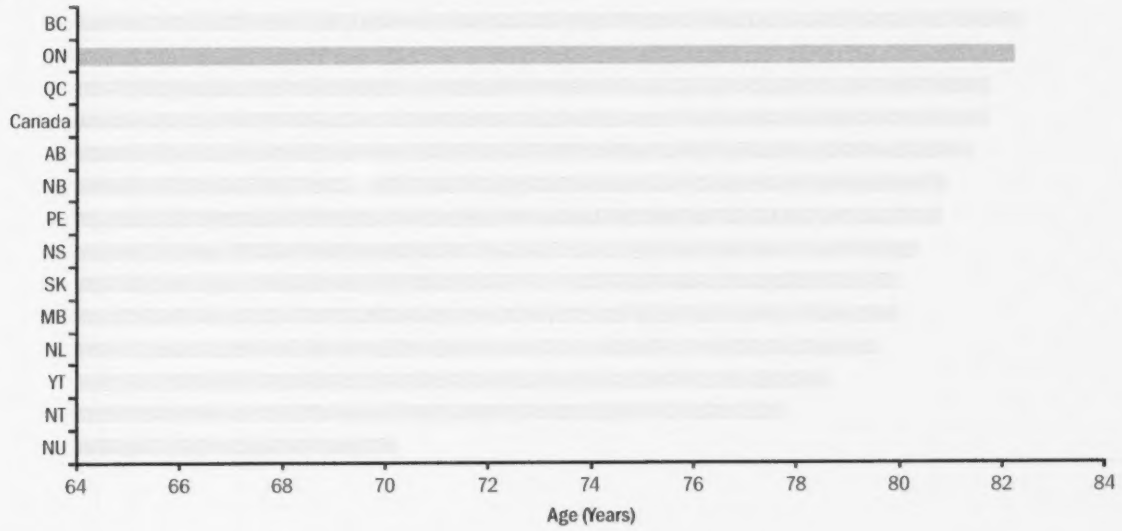
2.2.2 Life Expectancy of Ontarians

The health status of a population is usually measured by life expectancy, health behaviours, self-assessed health, and the prevalence (the number of cases at a given time) and incidence (the number of new cases over a given period of time) of illnesses and diseases.

According to Statistics Canada, the life expectancy calculated for the 2011-2013 three-year period (the most recent data available), for the average Canadian is 81.7 years, with those in British Columbia living the longest, at 82.4 years, and those in the three territories living the shortest, ranging from 70.2 years in Nunavut to 78.6 years in Yukon. Ontarians live the second-longest compared with other provinces and territories, at 82.2 years, as shown in **Figure 1**.

Figure 1: Life Expectancy, Canada, Provinces and Territories, 2011–2013

Source of data: Statistics Canada



2.2.3 Trends of Chronic Diseases and Key Risk Factors in Ontario

The prevalence of diagnosed chronic diseases in Ontario has increased between 2003 and 2013:

- diabetes increased by 65%;
- chronic obstructive pulmonary disease (a type of respiratory disease) increased by 17%;
- high blood pressure (a cause of cardiovascular disease) increased by 42%; and
- cancer increased by 44%.

The number of new cancer cases diagnosed per year in Ontario, which is the incidence rate, has increased since at least 1981 from 29,649 to 85,648 in 2016; and the number of new diabetes cases fluctuated from 66,180 in 2000, peaking in 2006 at 93,950 and subsequently decreased to 72,510 in 2012, which is the most recent data available at the time of our audit.

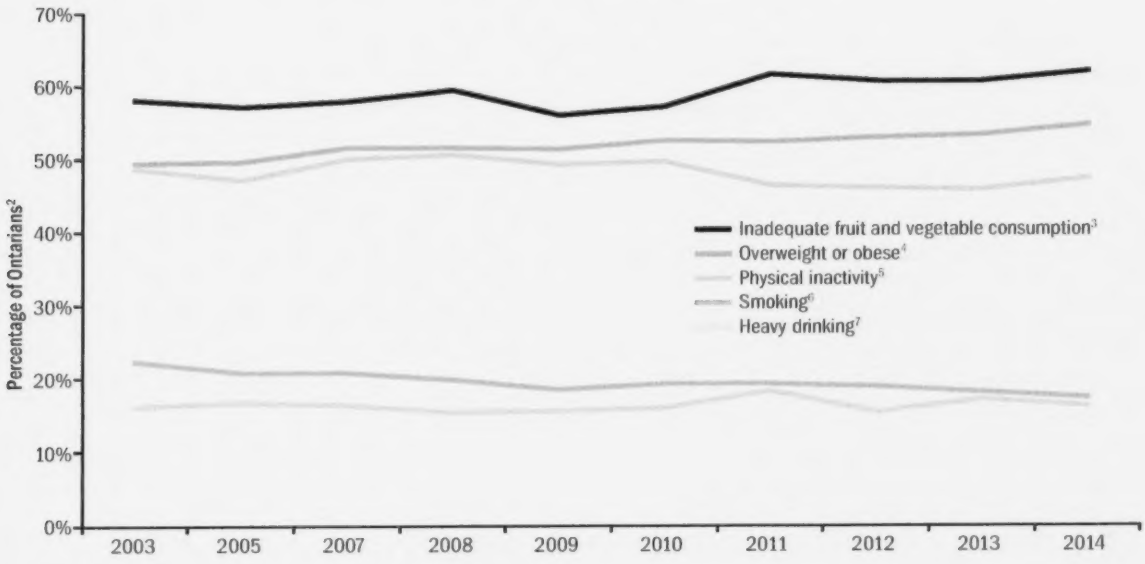
A predominant reason for the spike in prevalence and incidence of chronic diseases is the aging Ontarian population. From 2006 to 2016, the general population in Ontario increased by about 11%. During the same period, the number of Ontarians aged 65 and older increased from 1.65 million to 2.25 million, a 36% increase in the last 10 years. In addition, according to the Ontario Population Projections Update released in spring 2017, the number of seniors aged 65 and over is expected to almost double between 2016 and 2041, with the growth in the share and number of seniors accelerating over the 2016 to 2031 period as the last of the baby boomers turn 65.

Treatment advances have also contributed to more people living longer with—rather than dying early from—chronic diseases.

Figure 2 shows the trends between 2003 and 2014 for the five factors that are contributing to the

Figure 2: Key Health Risk Factor Trends in Ontario, 2003–2014[1]

Source of data: Canadian Community Health Survey, Statistics Canada



1. No data available for 2004 and 2006.
2. Ontarians aged 12 and older, except Overweight or Obese aged 18 and older.
3. Consuming fruits and vegetables less than five times per day.
4. Ratio of body weight (in kilograms) to height (in metres) squared is 25 and above.
5. Daily physical activity in leisure time < 1.5 kcal/kg/day.
6. Daily or occasional cigarette smoking.
7. Prior to 2013, heavy drinking was defined as having five or more drinks on one occasion, at least once a month. In 2013, the definition changed to five or more drinks for males and four or more drinks for females.

Figure 3: The Spectrum of Prevention Categories
Prepared by the Office of the Auditor General of Ontario

Level of Prevention	Description	Examples	Primary Responsible Party in Ontario
Primary*	Prevents the onset of disease; involves interventions that are applied before there is any evidence of disease or injury	Smoking cessation, physical fitness, and immunization	36 public health units
Secondary	Detects a disease in its earliest stages, before symptoms appear, and intervenes to slow or stop its progression	Cancer screening and oral glucose tolerance test	Primary-care providers, Cancer Care Ontario
Tertiary	Interventions designed to arrest the progress of an established disease, such as diabetes, cancer, and stroke, and to control its negative consequences	Drug treatment, bariatric surgery (surgery to aid weight loss), and diet	Primary-care providers, hospitals

* Focus of this audit is on primary intervention by public health.

incidence of chronic diseases: inadequate fruit and vegetable consumption; obesity; physical inactivity; heavy drinking; and smoking.

In 2014, a smaller proportion of Ontarians reported smoking and heavy drinking compared with 2003, indicating positive trends. Yet a larger proportion of people reported inadequate fruit and vegetable consumption, and more people were overweight or obese, indicating negative trends. The change in physical activity was negligible during this period.

In 2012, the Institute for Clinical Evaluative Sciences and Public Health Ontario released a report that noted that smoking, unhealthy alcohol consumption, poor diet, physical inactivity and high stress can influence life expectancy and quality of life. Collectively, these five risks reduced life expectancy in Ontario by 7.5 years: 7.9 years for men and 7.1 years for women. By reducing these risks, Ontarians would not only live longer but also increase the number of years they spend in good health—a concept known as 'increased quality-adjusted life years,' which considers the quality of life when counting life years, and that the burden of chronic disease risk factors will potentially have a negative impact on quality of life.

2.3 Programs and Services to Promote Healthy Living and Prevent Chronic Diseases

2.3.1 Three Levels of Prevention

Public health programs in Ontario focus on health promotion and primary prevention to reduce disease incidence before symptoms occur. Other partners in the health sector, including primary-care providers or hospitals, would be involved in secondary and tertiary preventive strategies, as shown in **Figure 3**.

2.3.2 Public Health Programs and Services to Promote Healthy Living and Prevent Chronic Diseases

The Ontario Public Health Standards specify that public health units must work with local stakeholders, such as schools and municipal governments, and increase the ability of workplaces and community partners, to provide healthy living and chronic disease prevention programs that address the following six areas:

- healthy eating;
- healthy weights;
- comprehensive tobacco control;
- alcohol use;
- physical activity; and

- exposure to ultraviolet radiation (for example, from tanning beds and over-exposure to sunlight).

Public health units are also required to influence the development of public policies that incorporate health effects, living and working conditions that increase healthy activities and environments, and development of personal skills to support healthy lifestyles. They also are required to conduct analysis of surveillance data, including monitoring of trends over time, emerging trends and priority populations in the above six areas.

Major activities by the public health units on chronic disease prevention include:

- conducting research into effective interventions, approaches, and policies to address chronic disease risk factors, such as investigating the linkage between sugar (including sugar-sweetened beverages) and health for children, youth and adults;
- developing and implementing communication campaigns, such as creating brochures, posters, and online resources (including uploading materials to websites), to raise awareness of various chronic disease risk factors, such as consumption of sugar-sweetened beverages, reducing sedentary time and increasing physical activity, and tobacco-free living;
- working with external stakeholders, such as recreation facilities, municipalities, school boards, and not-for-profit organizations, to deliver workshops and skill-training sessions on smoking cessation, promotion of nutrition, and knowledge and skills on physical activity; and
- promoting comprehensive school health (explained in **Section 4.4.3**) through developing curriculum support materials, working with parents, staff and students to promote a supportive environment for healthy eating, healthy weights, tobacco-free living, alcohol-use prevention, sun safety, and physical activity.

Figure 4 shows examples of healthy living and chronic disease prevention programs and services offered by the 36 public health units in Ontario.

Figure 4: Examples of Programs and Services Delivered by Public Health Units to Prevent Risk Factors Contributing to Chronic Diseases

Prepared by the Office of the Auditor General of Ontario

Key Risk Factors	Examples of Programs or Services Delivered by Public Health Units
Unhealthy eating	• Workshops that provide nutrition information (for example, educate students on Canada's Food Guide) or teach food skills • Co-ordination of a student breakfast program
Unhealthy weights	• Providing materials to a workplace that is organizing a health fair • A combination of healthy eating and physical activity programs and services
Tobacco use	• Cessation clinics that provide counselling and nicotine replacement therapy to smokers • Youth leadership programs to train youth to advocate for tobacco control • Tobacco enforcement inspections to check that retailers have appropriate signage
Alcohol use	• Communication campaign to increase awareness of Canada's Low-Risk Alcohol Drinking Guidelines • Workshops in secondary schools to educate students about safe drinking
Physical inactivity	• Pedometer lending program • Active transportation planning; for example, assessing road safety for walking to schools • Sedentary behaviours communication campaign; for example, "interrupt your sit"
Ultraviolet radiation (UV) exposure	• Work with community partners to develop sun safety policies, help day camps to get accredited in sun safety • Implement shade policy--ensure schools have sufficient shade for students during recess and when they go outside

2.3.3 Funding of Healthy Living and Chronic Disease Prevention Programs

In Ontario, the Ministry spent $1.2 billion on public health and health promotion programs in 2016/17. **Figure 5** provides a breakdown of funding allocation to the key parties, with public health units receiving about 58% of the funding to deliver Ministry-mandated programs and services.

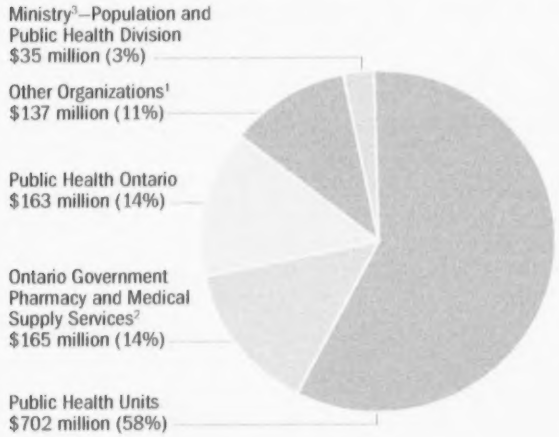
As noted in **Section 2.2.1**, chronic diseases have been identified as a major contributor to the cost of the health-care system. Public health units are the key delivery agent of Ontario's chronic disease prevention programs and receive Ministry funding for doing so. Public health units independently determine the proportion of their funding they would spend on the various activities under the Ontario Public Health Standards. Overall, Ontario's 36 public health units reported having devoted on average 12% of their full-time equivalent employees to chronic disease prevention in 2016.

Similarly, Public Health Ontario determines the proportion of funding it will spend on various activities, such as to support public health laboratories, scientific and technical support for chronic diseases and infectious diseases, and other operational areas.

Overall, in 2016/17, Ontario spent about $192 million, representing 16% of the total public health spending, on preventing chronic diseases. The percentage of public health funding allocated to chronic disease prevention has been consistently at this level in the last 10 years, despite rates of chronic diseases rising as the population ages. **Figure 6** shows the breakdown of this spending.

Figure 5: Allocation of Provincial Public Health Funding to Major Recipients, 2016/17

Source of data: Ministry of Health and Long-Term Care



1. Including orgnizations such as AccertaClaim Servicorp Inc., (the program administrator for Ontario's dental program), University of Ottawa Heart Institute, and Canadian Cancer Society.
2. The majority of this funding is for vaccines intended to prevent the spread of infectious diseases.
3. For policy development, oversight and administration.

2.4 Expert Panel on Public Health

The Minister of Health and Long-Term Care appointed an Expert Panel on Public Health in January 2017 to provide advice on the optimal structural, organizational, and governance changes needed for public health as part of transforming the health-care system, including the long-standing issue of realigning the boundaries of the public health units to better deliver public health services. The Ministry released the Expert Panel's report—*Public Health Within an Integrated Health System*—in July 2017. The recommendations from the panel include:

- the establishment of 14 regional public health entities, each with local service delivery areas, with boundaries consistent with Local Health Integration Network boundaries, which would be a reduction from the 36 individual public health units;
- a suggested structure of leadership and departments within each public health unit; and
- a consistent governance approach for all Boards of Health and suggested composition and size of the board and skills of board members.

The Ministry has announced that consultations on the recommendations are taking place in summer/fall 2017. There was no timeframe or any commitment yet to making changes to the public health delivery system at the time we completed our audit.

Over the last decade, a number of Ministry-commissioned studies have identified the need to

Figure 6: Allocation of Provincial Funding on Chronic Disease Prevention to Major Recipients, 2016/17
Source of data: Ministry of Health and Long-Term Care

Recipient	Description	Amount ($ million)
Public health units	Provincial share of the provincial/municipal cost-shared mandatory programs	105
	Smoke-Free Ontario program	23
Various parties*	Smoke-Free Ontario program	27
	Nutrition and healthy-eating programs	22
Health Promotion Resource Centres	Funds provided to 12 health promotion resource centres (See **Figure 7** for the list of centres and their hosting organizations)	11
Public Health Ontario	Funds allocated to support health promotion and chronic disease and injury prevention out of its total budget of $165 million	4
Total		**192**

* Includes municipalities, universities, and not-for-profit organizations, such as Canadian Cancer Society and Dietitians of Canada

review the number and size of the public health units to determine the most cost-effective delivery structure. These recommendations noted that the public health service delivery model could benefit from a reduced number of public health units and from ensuring that sufficient resources and staff expertise are in place at public health units, especially smaller ones. For instance, a 2006 report noted that "small health units sometimes find it difficult to recruit and retain skilled staff and generally lack sufficient team size and bench strength to manage smoothly during vacancies or emergencies." The report also noted that "it is harder for smaller health units to afford or justify the specialized staff needed to deal with expanding and increasingly complex public health programs and issues."

The number of health units remained at 36 at the time of our audit. The Ministry explained that it had not adjusted the number of public health units in the last 10 years because the recommendations were specific to the public-health sector only, and they needed to be considered in respect of the whole health system.

3.0 Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Health and Long-Term Care (Ministry), Boards of Health and Public Health Ontario have effective systems and processes in place to:

- oversee, co-ordinate and deliver chronic disease prevention programs and services in an equitable and cost-effective manner; and
- measure and report on the effectiveness of the programs and services in reducing the cost burden on the health-care system and improving population health outcomes.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at the Ministry, Public Health Ontario and the four public health units we visited during the audit reviewed and agreed with the suitability of our audit objective and related criteria, as listed in **Appendix 3**, and shared their concerns on the challenges with measuring and reporting on the effectiveness of programs and services in reducing the cost burden on the health-care system.

We focused on public health activities since 2014, and considered relevant data and events in the last 10 years. We conducted our audit between November 2016 and May 2017. We obtained written representation from the Ministry, Public Health Ontario and the four public health units we visited that, effective November 16, 2017, they have provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

As described in **Section 2.0**, public health covers a wide range of programs and services. Our Office has conducted a number of audits in the recent past that relate to these public health programs and services. These include:

- Immunization, Ministry of Health and Long-Term Care, in 2014;
- Healthy School Strategy, Ministry of Education, in 2013; and
- Diabetes Management Strategy, Ministry of Health and Long-Term Care, in 2012.

In addition, there are three other audits in this year's Annual Report that relate to public health. They are Cancer Treatment Services (**Chapter 3.02**), Emergency Management in Ontario (**Chapter 3.04**) and Laboratory Services in the Health Sector (**Chapter 3.07**).

To avoid overlapping areas covered in our previous audits and other ongoing work, the focus of this audit is on the Ministry's monitoring and funding of public health programs and services that promote healthy living to prevent chronic diseases, public health units' delivery of these programs and services, and Public Health Ontario's role in supporting the Ministry and the public health units.

Our audit was conducted primarily at the Population and Public Health Division of the Ministry, Public Health Ontario and four of the 36 public health units across Ontario: in Chatham-Kent, Durham, Thunder Bay and Toronto. We selected these four locations based on their geographic location, governance structure and an analysis of 13 different health indicators, including rates of mortality, smoking, obesity, and hospitalization rates for cancer, diabetes, cardiovascular diseases and strokes.

In conducting our work, we met with the following:

- Ministry staff responsible for developing and monitoring the implementation of provincial policies and for oversight and funding of public health, and the Chief Medical Officer of Health;
- board chairs, management and relevant staff at public health units who oversee, plan, deliver and evaluate public health programs; and
- management and relevant staff at Public Health Ontario who provide support and research materials to the Ministry, public health units and others.

We also reviewed pertinent information and analyzed relevant data on chronic diseases and public health and researched how public health programs and services are delivered in other provinces.

To obtain perspectives on public health—specifically chronic disease prevention and health promotion programs in Ontario—we met with representatives from the Association of Local Public Health Agencies (an association that represents all 36 local health units in Ontario); Ontario Public Health Association (an association that represents members interested in public health—students, public health inspectors, epidemiologists, and other individuals); Cancer Care Ontario; the Heart and Stroke Foundation of Canada; The Lung Association – Ontario; Ontario Physical and Health Education Association; the Kidney Foundation of Canada – Ontario Branch; Diabetes Canada; and the Canadian Cancer Society – Ontario Division. As well, we met with representatives from the Healthy Kids Panel, which developed the Province's Healthy Kids Strategy in 2012 to address childhood obesity, and the Expert Panel on Public Health (discussed in **Section 2.4**).

Our audit included a review of complaints received by the Ontario Ombudsman and audits completed by the Ontario Internal Audit Division in the last five years. We considered these in determining the scope and extent of our audit work.

We also solicited feedback through surveying relevant staff from all of Ontario's 36 public health units. These groups included the oversight body (board members and chairs), senior staff responsible for reporting on public health unit performance, and staff responsible for planning, delivering and evaluating chronic disease programs. We received feedback from 200 out of 470 board members and chairs (43% response rate), 51 out of 57 Medical Officers of Health, Associate Medical Officers of Health and chief executive officers (89% response rate), 169 out of 195 senior staff responsible for reporting on health unit performance (87% response rate), and 70 out of 80 senior staff on chronic disease programs (88% response rate).

We engaged an expert with knowledge of the Ontario public health system to assist us on this audit.

4.0 Detailed Audit Observations

4.1 Province Has Not Adequately Addressed Risk Factors to Support Healthy Living and Chronic Disease Prevention

4.1.1 No Current Provincial Strategy on Preventing Chronic Diseases

The Province has no current overarching policy framework on chronic diseases. Such a framework would outline the goals and objectives of chronic disease prevention programming; provincial targets that focus on health outcomes; and the roles and responsibilities of the various parties involved in planning, delivering and evaluating public health programs designed for preventing chronic diseases.

While Ontario has established a number of strategies that relate to preventing chronic diseases, such as the Smoke-Free Ontario tobacco strategy, the Diabetes Strategy and the Healthy Kids Strategy, they do not address the entire population nor are they integrated and comprehensive to address chronic diseases or risk factors. A comprehensive provincial strategy on chronic disease prevention is important because chronic diseases have a significant impact on health-care spending (discussed in **Section 2.2.1**).

In May 2007, the Ministry created a provincial framework on chronic disease. This framework covered aspects of both prevention and management—how the health system helps a patient to manage an already-developed chronic condition. The purpose of this framework was to guide Ministry initiatives and re-think approaches to chronic disease management while exploring ways to build health promotion and disease prevention into health-care practice. However, at the time of our audit, the Ministry did not rely on this document for policy direction regarding any of its chronic disease prevention and health-promotion programs. The Ministry indicated that it is using the 2007 framework as a reference document in its recent efforts in exploring options for policies and programs to prevent chronic diseases in Ontario.

In comparison, British Columbia released a guiding framework for public health in 2013 with long-term goals and targets to drive system-wide action and improve health outcomes, including specific performance-measure baselines and targets for modifiable risk factors related to chronic diseases. British Columbia set a number of goals to reach by 2023, including increasing the percentage of British Columbians who are meeting the guidelines for physical activity from 60% to 70% and the proportion of British Columbians (age 12 and up) who consume at least five servings of fruit and vegetables per day from 44% to 55%.

The B.C. framework was updated in March 2017 to reflect changes to data sources and the availability of updated data. In addition, the Ministry of Health in British Columbia in 2014 released an update to its *Healthy Families BC Policy Framework*, which sets out a focused approach to chronic disease prevention to provide guidance for using evidence to design interventions that address the major risk factors.

Province Has No Reporting on Overall Population Health Status

Ontario has not established performance measures and related targets to measure the overall population health status. The Ministry neither formally monitors nor publicly reports on population health indicators or on risk factors. The Institute on Governance, which is an independent, Canada-based, not-for-profit institution with a mission to advance better governance in the public interest, recommended in a 2012 report that Ontario would benefit if the Ministry identified a group to monitor long-term outcome indicators as part of a performance measurement system, such as risk factors and the prevalence of chronic conditions.

While the Province's Chief Medical Officer of Health is required to report annually to the Legislature on the state of public health in Ontario, the last reports focused on only specific topics instead of an assessment of the overall state of public health in Ontario. For instance, the Chief Medical Officer highlighted in his 2015 report the importance of local data and recommended that the Province undertake a provincial population health survey that collects data at the local community and neighbourhood levels.

In contrast, British Columbia, in its policy framework, set a number of goals to reach by 2023 regarding a measurable increase in both physical activity and eating fruit and vegetables.

RECOMMENDATION 1

To most effectively reduce the cost burden of chronic diseases on the health-care system and improve the quality of life for Ontarians, we recommend that the Ministry of Health and Long-Term Care:

- develop a provincial strategy to guide activities for chronic disease prevention, including setting measurable goals on population health, along with timelines, and defining actions and parties involved to achieve these goals; and
- publicly report on Ontario's overall population health status.

MINISTRY RESPONSE

The Ministry agrees with the importance of chronic disease prevention in supporting overall health, improving quality of life and reducing the cost burden on the health-care system.

Building on the extensive efforts and achievements to date, including the Smoke-Free Ontario Strategy, the Healthy Kids Strategy and local public health programming, the Ministry is currently developing a comprehensive provincial strategy to promote health, prevent disease and help all Ontarians lead long, healthy lives. This strategy, with phased implementation beginning in 2018/19, would include specific actions to increase adoption of healthy living behaviours (i.e., reduce chronic disease risk factors) using an integrated approach that recognizes the impact of social determinants of health. Monitoring, evaluation and continuous quality improvement are key components of the proposed strategy.

With respect to public reporting on Ontario's overall population health status, the Ministry will continue to work with its partners, including the Institute for Clinical Evaluative Sciences, Public Health Ontario and Health Quality Ontario, to monitor population health, including the burden of chronic diseases. At the local level, it will be a requirement under the modernized Ontario Public Health Standards for Boards of Health to provide local population health information to the public, community partners and other health-care providers.

4.1.2 Province Does Not Have a Comprehensive Approach to Assess Public Health Impact in Legislation and Policy Development

Public health units advocate for policy changes at the local and provincial levels. For example, many public health units have successfully influenced local policies on banning smoking at restaurants, bars, beaches, parks and playgrounds, and some of these policies were subsequently adopted by the Province. In addition, public health units have influenced local policies related to affordable recreation, bicycle lanes, and municipal alcohol policies.

Successful approaches to implementing health policy require both local and provincial policy development. The provincial government has a greater ability to influence certain health outcomes, and policies at the provincial level can sometimes result in even more significant changes than local changes. Different provincial ministries oversee different areas—for instance, taxation, education, environment, labour, community and social services, housing, transportation, economic development, agriculture, and health—that can influence population health outcomes. For example, the Ministry of the Environment and Climate Change is responsible for improving and protecting air quality. Air pollution can negatively affect people's health, in particular people with chronic diseases.

There are jurisdictions that are using the Health in All Policies (HiAP) approach. It is defined by the World Health Organization as an approach that takes into account how government decisions affect population health so that there is more accountability of policymakers. Finland was recognized as one of the pioneers of HiAP in 2006, which included the release of a report that examined the benefits of cross-government policies to improve health. In Canada, Quebec is the only province to have formally implemented the HiAP approach. All government departments in Quebec must, as directed in the *Public Health Act*, assess the effect on public health as part of the process of making policies.

In their 2012 report, *Taking Action to Prevent Chronic Disease—Recommendations for a Healthier Ontario*, Cancer Care Ontario and Public Health Ontario recommended that the provincial government adopt a whole-of-government approach for primary prevention of chronic disease, including naming a ministerial and senior public service lead to co-ordinate activities between sectors and levels of government for the improvement of health. They further recommended developing a comprehensive, multi-level health promotion and chronic disease prevention strategy for Ontario with goals and measurable outcomes (discussed in **Section 4.1.1**). These were not yet in place at the time of our audit and the Province has no plan in place to implement these recommendations but indicated it will continue to consider them in the context of development of policy direction. We discuss the lack of ministerial co-ordination in **Section 4.2**.

RECOMMENDATION 2

To encourage that the development of government policies takes into account the effect they have on population health, we recommend that the Ministry of Health and Long-Term Care work with the relevant central agencies to:

- evaluate the pros and cons of adopting an approach that requires policy-making to evaluate the impact on health; and
- develop a process to integrate this approach into setting policies, where appropriate.

MINISTRY RESPONSE

The Ministry agrees to working with the relevant agencies to evaluate the pros and cons of adopting an approach that requires consideration of health impacts during policy development processes. Depending on the results of such an analysis, consideration could be given to integrating this approach into policy development where appropriate.

4.1.3 Comprehensive Policy Developed and Dedicated Funding Provided for Tobacco Control but Not Physical Activity, Healthy Eating and Alcohol Consumption

Ontario has developed comprehensive policies and provided dedicated funding to support tobacco control, which is one of the biggest contributors to chronic diseases, but not on other important contributors, such as physical inactivity, poor diet and heavy drinking.

The 2016 Institute for Clinical Evaluative Sciences (Institute) report, mentioned in **Section 2.2.1**, further broke down the health-care spending by risk factor, with 12.8% allocated to physical inactivity, 9.9% to smoking, 1.2% to diet and 0.3% to alcohol. Similarly, a number of U.S. studies have reported that the cost burden of obesity and people being overweight has overtaken tobacco south of the border.

Among Ontarians aged 12 and older, there has been a reduction in the rate of smoking from 22.3% in 2003 to 17.4% in 2014, and the trends for physical inactivity, inadequate consumption of fruit and vegetables, and heavy drinking of alcohol have remained relatively flat. At the same time, the overweight and obese rate among those aged 18 and older increased from 49.5% to 54.6%. Being overweight or obese has been identified as major contributors to chronic diseases, such as diabetes, fatty liver diseases and end-stage renal diseases.

Smoking

In 2006, the Province enacted the *Smoke-Free Ontario Act*, which replaced the *Tobacco Control Act, 1994*. The Province focused on tobacco because, at that time, it was identified as the number one cause of preventable deaths in Ontario, killing more than 13,000 Ontarians every year. In addition to enacting the legislation in 2006, the Province also dedicated funding and resources to address tobacco control. Since 2006 to March 31, 2017, the Ministry has provided a total of $465 million in support of this initiative. The smoking rate declined from 22.3% in 2003 to 17.4% in 2014, a reduction of just under five percentage points.

According to Cancer Care Ontario, the incidence rate of small cell lung cancer, a condition heavily associated with smoking, has been decreasing since 1987 and has remained stable from 2006 to 2012; this may be the result of the historical decline in tobacco use in Ontario. Similarly, the 2016 Institute's report (noted in **Section 2.2.1**) indicated that a decline in smoking between 2004 and 2013 was responsible for about $4.1 billion of avoided costs, representing a significant return on investment.

Physical Activity

The 2016 Institute's report noted that the lack of physical activity accounted for the largest proportion of total health-care costs at 12.8%, compared with much lower percentages for diet and alcohol. However, we found that public health units we visited have placed more emphasis on nutrition-related services than on physical activity-related services. Based on a survey of the 36 public health units, we found that 86% ranked healthy eating either first or second when asked about resource allocation by the risk factors, while only 14% ranked physical activity first or second in terms of resource allocation.

One of the public health units we visited had 23 public health dietitians and/or nutrition promotion consultants and two employees with physical activity background (for example, a kinesiology degree) dedicated to chronic disease and injury prevention. This public health unit provided almost five times as many nutrition services to clients as physical activity-related services. Similarly, another public health unit we visited had twice as many employees dedicated to nutrition programs than to physical activity. And another health unit had 40 to 50 healthy-eating actions planned, but only four to five physical activity-related actions as part of its annual plan for the school health team.

These public health units explained that they focus more on nutrition than on physical activity

because schools and other organizations, including workplaces and community centres, are perceived to be more familiar with physical activity than with diet, and therefore request help from public health units on nutrition rather than on physical activity. However, a Toronto Student Survey conducted by Toronto Public Health in 2014 found that only 7% of Toronto students, Grades 7 to 12, were meeting the Canadian physical activity guidelines. Therefore, public health units can still do more to promote and develop programs on physical activity.

Healthy Diet

Ontario has implemented a number of measures to promote healthy diet. One such measure was the introduction of the *Healthy Menu Choices Act*, which requires restaurants with 20 or more premises in Ontario to display calorie counts on menus. Another measure was the implementation of the Northern Fruit and Vegetable Program, which provides access to fresh produce for children in rural and remote communities. However, a number of Ontario-based public health studies have suggested other measures that can also be implemented to improve healthy diet. These measures are intended to serve the following objectives—increase access to fresh food, reduce children's exposure to sugar-sweetened beverages, and prepare children and youth to be competent in food preparation. However, at the time of our audit, the Province has not adopted these measures.

The Healthy Kids Strategy report released in 2013 had 23 recommendations on reducing childhood overweight rates and obesity, including a number of policies that could improve the healthy behaviours of children. These include both the municipal and provincial governments exploring the types of incentives used in other jurisdictions to attract stores to "food deserts"—areas where access to fresh food is limited, usually in neighbourhoods with high rates of poverty and youth crime. The incentives would include providing tax incentives and rebates; creating zoning allowances; and providing planning support. The report noted that the U.S. Government established the Healthy Food Financing Initiative in 2010 to offset the costs associated with creating and maintaining grocery stores in underserviced areas.

Another policy recommendation that the Healthy Kids Strategy suggested was banning the marketing of high-calorie, low-nutrient foods, beverages and snacks to children under age 12. It also recommended banning point-of-sale promotions and displays of high-calorie, low-nutrient foods and beverages in retail settings, beginning with sugar-sweetened beverages. Other countries, including Mexico, the United Kingdom and Sweden, have adopted similar measures to limit marketing and advertising these products to children.

In September 2016, a Senator in Canada introduced a Senate public bill to amend the *Food and Drug Act* to prohibit food and beverage marketing directed at children under 13 years of age. If passed, it would be illegal to package and advertise junk food, sugary drinks, and chewing gum to pre-teen children across Canada, and the Canadian Food Inspection Agency would be responsible for enforcing the legislation. At the time of our audit, the provincial government had not introduced any policy in this regard.

In their 2012 report, Cancer Care Ontario and Public Health Ontario published 22 evidence-based recommendations. This report recommended that the Province include compulsory food skills in elementary and secondary curricula. At the time of our audit, the Province had not implemented this recommendation.

Alcohol Consumption

In the case of ensuring effective controls on alcohol availability, we found that while public health is tasked with promoting Canada's Low-Risk Alcohol Drinking Guidelines to reduce the burden of alcohol-related illness and disease, in 2015 the Province expanded alcohol sales in grocery stores, farmers' markets, and LCBO e-commerce sales

channels. One public health unit released a public statement noting that this move undermines the objective of public health units' work to reduce the burden of alcohol-related illness and disease.

Similarly, in their report mentioned earlier, Cancer Care Ontario and Public Health Ontario noted that the evidence shows that increased availability of alcohol is associated with high-risk drinking and alcohol-related health problems.

RECOMMENDATION 3

To better address the risk factors that contribute to chronic diseases, we recommend that the Ministry of Health and Long-Term Care develop comprehensive policies to focus on the key risk factors of chronic diseases—physical inactivity, unhealthy eating and alcohol consumption—in addition to tobacco control.

MINISTRY RESPONSE

The Ministry agrees with the importance of developing comprehensive policies to address key risk factors for chronic diseases in the areas of physical inactivity, unhealthy eating and alcohol consumption, in addition to tobacco control. Examples of the Ministry's policy initiatives in these areas include:

- The Healthy Kids Strategy, a cross-government initiative launched in 2013, focuses on key interventions to support healthy weights among children and youth through increased physical activity and healthy eating. Examples of provincial initiatives under this strategy include implementation of the *Healthy Menu Choices Act*, effective January 1, 2017, to require the posting of calories on menu boards at regulated food premises; implementation of the Healthy Kids Community Challenge in 45 communities across Ontario; telephone counselling to support breastfeeding; and expansions to programs aimed at providing fresh fruit and vegetables to northern communities and healthy eating and active living programming in Indigenous communities.
- The Ministry and public health units are actively involved in promoting the Low-Risk Alcohol Drinking Guidelines to support a culture of moderation and provide consistent messaging about informed alcohol choices and responsible use. Over 65 stakeholders have been consulted to inform the development of a provincial Alcohol Strategy.

Building on these achievements, the Ministry is currently developing an integrated provincial strategy to further increase adoption of healthy living behaviours across the lifespan to reduce risk factors for chronic diseases including unhealthy eating, physical inactivity, harmful use of alcohol, and tobacco use, while recognizing the impact of social determinants of health.

4.2 Lack of Co-ordination and Collaboration in Program Planning and Delivery

4.2.1 Co-ordination Needed at Provincial Level to Aid Public Health Units' Delivery of Programs to Children and Youth

In accordance with the Ontario Public Health Standards, public health units are required to work with school boards and/or school staff to promote healthy behaviours, such as healthy eating and physical activity.

We found that there is a general lack of co-ordination at the provincial level—between the Ministry of Health and Long-Term Care and the Ministry of Education, which is responsible for the school boards—to help public health units provide public health programs and services at schools. This lack of co-ordination negatively affects public health units' ability to influence healthy living behaviours in young children.

All four public health units we visited had to work with schools individually to gain access to the schools. We found that some schools are not willing

or for other reasons choose not to work with public health units. Consequently, public health units spend resources to build relationships and persuade schools to participate in effective public health programs instead of on actual service delivery. Some public health units have even used one-time events to gain access into schools, even though current evidence suggests that health promotion interventions must be longer in duration and include supporting policy changes in addition to education. According to results of our survey of senior staff of health promotion and chronic disease prevention, over half of public health units sometimes or often accept requests for one-time events from schools and less than 5% never accept such requests.

Although we noted examples of public health units working with schools—such as providing cooking lessons to help students establish better eating habits and providing training to teachers in regard to active playground games—public health units still could not easily access all schools. In 2016, one of the public health units we visited had not engaged with 28% of the publicly funded schools in its catchment area and provided only one service—for example, delivering a nutrition workshop—to 18% of the schools.

Another area where co-ordination between schools and public health agencies is lacking is the collection and sharing of data. For instance, Public Health Ontario is responsible for evaluating a multi-year, $33-million childhood obesity reduction program funded by the Ministry. In order to collect baseline data against which to evaluate the program, Public Health Ontario planned to administer a survey in 234 schools and 57 school boards across Ontario to obtain a representative and sufficient sample size. In order to do this, Public Health Ontario had to negotiate with each of the 57 school boards, which ultimately proved infeasible and the project was abandoned. A directive from the Ministry of Education to the school boards could have made the project possible and thereby improved the quality of the evaluation.

In our 2013 audit on Healthy Schools Strategy, we recommended that the Ministry of Education and school boards work more effectively with public health units and other relevant organizations with similar goals. The lack of co-ordination was still evident during our current audit on this matter in public health.

RECOMMENDATION 4

To support public health units to more efficiently and effectively deliver health promotion initiatives to children and youth, we recommend that the Ministry of Health and Long-Term Care co-ordinate with the Ministry of Education to form collaborative and sustainable partnerships between school boards and public health units.

MINISTRY RESPONSE

The Ministry agrees that collaboration between the Ministry of Health and Long-Term Care and the Ministry of Education is important, not only to support delivery of public health programs within schools, but also to support co-ordinated provincial policy development.

Since 2013, the Ministry of Health and Long-Term Care and the Ministry of Education have co-sponsored a joint committee of the Council of Ontario Directors of Education (CODE) and the Council of Ontario Medical Officers of Health (COMOH), with the goal of optimizing the delivery of public health programs and services through enhanced partnerships between public health units and school boards. This CODE/COMOH Committee has developed a template memorandum of understanding that can be used to articulate areas of common work and collaboration between school boards and public health units.

To further support provincial-level co-ordination between the public health and education sectors, the Ministry has developed a School Health Standard within the modernized Ontario Public Health Standards, which includes all

activities delivered in and with schools. The Standard was developed with input from the Ministry of Education, as well as other partners, and aligns with the Ministry of Education's Well-Being Strategy for Education.

The Ministry of Health and Long-Term Care will continue to build on provincial collaboration between the health and education sectors through establishment of a Director's Forum with representation from the Ministry of Health and Long-Term Care, the Ministry of Education and other relevant ministries, such as the Ministry of Children and Youth Services.

4.2.2 Program Planning and Development Not Well Co-ordinated across Public Health Units

No provincial body actively updates evidence, shares best practices, and develops surveillance systems on health promotion programs on a regular basis to help the public health units design programs to meet their local needs.

Public Health Ontario funds and supports Locally Driven Collaborative Projects where interested public health units come together to work on a common topic. Since 2011, the public health units have completed eight projects related to chronic disease prevention. These projects include three on the current data gap that exists in childhood healthy weights surveillance at the local health unit level (we discuss this further in **Section 4.3.2**); two on improving young people's knowledge and skills to budget for, purchase and cook food; one on alcohol consumption and alcohol-related harm; one on health-promotion and health-education strategies on infant and child health; and one on evaluating a model to collect provincial data on population health.

In addition, the Ministry has provided funding to health promotion resource centres (described in **Figure 7**). These centres are hosted in organizations with specialities in different areas, such as Cancer Care Ontario and The Lung Association – Ontario. The resource centres support the health sector through providing training, resources and tools on various areas, such as smoking, alcohol consumption, nutrition and child health. These resource centres received provincial funding totalling $11 million in 2016/17. In early 2017, the Ministry informed the resource centres that it was winding down the existing funding structure for these centres and will be creating a new funding approach starting in 2018/19 to improve efficiencies of the services offered. Under the new approach, applications for funding could be made to support areas, such as evaluation, training and community development.

Despite these initiatives, we found that for the most part, public health units undertake research or develop local solutions independently, resulting in limited comparability between public health units, duplication of effort, and significant variation in the depth of the research, communication campaigns developed, and type of information gathered.

Duplication of Effort and Variability in Research

Our survey of the 36 public health units found that since 2014, about one-third of them have undertaken research on a number of common topics, including sugar-sweetened beverages, energy drinks, e-cigarettes and alcohol. This could result in duplication of effort and resources spent on research as each public health unit undertakes its own work, and could lead to significant variability in the degree of research to support program planning and development.

At two of the public health units we visited, we found that on a review of effective school-based healthy eating and physical activity interventions relevant to healthy weights, the depth of the reviews was substantially different. One public health unit assessed 18 documents in 2013 while the other health unit screened 400 documents a year earlier. The public health unit with the more in-depth review used this information to develop new school-based interventions, while the other

Figure 7: Areas of Focus and Hosting Organizations of Health Promotion Resource Centres

Source of data: Ministry of Health and Long-Term Care

Name of Resource Centre	Hosting Organization	Area of Focus
Funded by the Ministry of Health and Long-Term Care		
CAMH Health Promotion Resource Centre	Centre for Addiction and Mental Health (CAMH)	Mental health, substance and alcohol use
CAMH Training Enhancement in Applied Cessation Counselling and Health Project	CAMH	Tobacco
Ontario Tobacco Research Unit	University of Toronto	Tobacco
Program Training and Consultation Centre	Cancer Care Ontario[1]	Tobacco
Smoking and Health Action Foundation	Non-Smokers Rights Association	Tobacco
Youth Advocacy Training Institute	The Lung Association – Ontario	Tobacco and youth engagement
HC Link	Health Nexus	Healthy communities
Health Promotion Capacity Building	Public Health Ontario (PHO)	Program planning, evaluation and policy development
Health Promotion Capacity Building Alcohol Policy	PHO	Alcohol policy
Nutrition Resource Centre	Ontario Public Health Association	Nutrition
Ontario Injury Prevention Resource Centre	Parachute[1]	Injury prevention
Physical Activity Resource Centre	Ontario Physical and Health Education Association (Ophea)	Physical activity
Funded by Other Ministries		
Best Start Resource Centre[2]	Health Nexus	Maternal/child health
Curriculum and School Based Health Resource Centre[3]	Ophea	Healthy active living and the health and physical education curriculum

1. Funding to these resource centres flows through Public Health Ontario
2. Funded by the Ministry of Children and Youth Services
3. Funded by the Ministry of Education

public health unit used the results of the research to reinforce its current practices, such as the requirement to consider cultural attitudes and barriers when planning and putting in place interventions for healthy eating and physical activity. In addition, according to our survey, respondents from about two-thirds of the public health units reported having internally prepared a literature review on school-based programs that promote healthy weights, healthy eating or physical activity.

As well, we found that while Public Health Ontario has a mandate to provide scientific and technical support for chronic disease prevention, three of the four public health units we visited generally did not reach out to Public Health Ontario for assistance with chronic disease research or scientific advice. One chronic disease prevention-related request made by the public health unit that reached out to Public Health Ontario was declined due to resource constraints and competing priorities. Other public health units indicated that either they are aware of the limited capacity at Public Health Ontario or they were under the impression that Public Health Ontario did not provide this kind of support on chronic diseases.

The survey to senior managers responsible for health promotion and chronic disease prevention asked whether there was anything Public Health Ontario could do better in the area of chronic disease prevention. Twenty of 40 comments mentioned a need for central support for updating and/or disseminating research and best practices. Public

health unit senior managers also commonly cited a need for stronger leadership and co-ordination, more central analysis of epidemiological data and evaluation support in order to decrease duplication of effort and increase effectiveness. We discuss these needs in **Section 4.3** and **Section 4.4**.

Program and Campaign Development Not Centrally Co-ordinated

Public health units generally developed their own chronic disease prevention programs from scratch and at varying levels of quality. One explanation for this was that local needs and environments require different programs. However, a number of programs at different health units were developed with similar intent and in the same context. For instance, all four health units that we visited separately developed classroom content and teaching supports for healthy eating, physical activity and substance misuse. We asked senior management in chronic disease prevention at all four public health units to describe how their programs differed from other health units' and they were not aware of how their programs differed from each other.

As well, developing centralized campaigns could be significantly more efficient for risk factors that are common across public health units. Public health units we visited noted that if communication campaigns were developed centrally, the health units would need to be able to modify them to be relevant to their population; for example, media campaigns in rural areas cannot feature images of people walking out of a subway. We noted examples where health units have adopted common campaigns in the areas of tobacco control, healthy drink choices, and alcohol consumption. However, we found that health units had not expanded their collaboration into other campaigns. For example, the four public health units we visited have separately developed or were in the process of developing a communication campaign to promote physical activity from 2014 through 2016, with no central co-ordination.

No Central System to Collect Breastfeeding Data

In 2013, the Ministry established a requirement for all public health units to report their progress toward designation under the Baby-Friendly Initiative, a World Health Organization initiative that encourages breastfeeding. A pre-requisite to designation is that the public health unit provide annual data on breastfeeding, including the number of women who initiate breastfeeding and how long they exclusively breastfeed their babies. Because Ontario has no comprehensive data collection system that records the duration of breastfeeding, each of the 36 public health units has had to develop a monitoring system to collect this data or co-ordinate among themselves.

Our survey of the public health units noted thirteen public health units were using a third-party developed system, 10 units had developed their own in-house surveillance system, and six were using the database and telephone questionnaire piloted by a shared collaboration project by the public health units. Of the remaining seven public health units, one used an external company, one used a simple survey, two did not have a system, and three did not know.

Depending on the public health unit, information may be collected via email, over the telephone, or in person, or a combination of the three. As well, the public health units collect information at different times; for instance, one health unit collected data at 48 hours after discharge from the hospital and at two weeks, while others collected data at two, six and 12 months. As a result, breastfeeding rates are not comparable from one public health unit to another, which hampers the ability to share best practices and identify public health units with low breastfeeding rates.

RECOMMENDATION 5

To foster consistency and to avoid duplication in program planning and research for effective, evidence-based public health interventions, we recommend that the Ministry of Health and

Long-Term Care work with the public health units and Public Health Ontario to develop a central approach to update, co-ordinate and share research and best practices.

MINISTRY RESPONSE

The Ministry agrees with a central approach for the sharing of research and best practices related to chronic disease prevention and other areas of focus within the public health sector.

A co-ordinated approach is being taken to support public health units in planning for, delivering and evaluating their local programs and services under the modernized Ontario Public Health Standards. The modernized standards will be supported by a public health accountability framework, outcome-focused indicators, co-ordinated data support, and a provincial surveillance and monitoring strategy with links to public reporting. A central repository for evidence, best practices, tools and data, to be developed beginning in 2018/19, will be made available to all public health units to support them in the ongoing implementation of the modernized standards. This repository will be kept up to date to ensure that the sector continues to have access to intelligence that informs the development of programs and services on an ongoing basis.

4.3 Public Health Units Do Not Have Sufficient Data or Clear Standards to Effectively Conduct Epidemiological Data Analysis

Public health units are required to collect, manage, analyze and interpret epidemiological data for their population. Epidemiology sheds light on patterns of health behaviours and how diseases and health behaviours relate to socio-demographic characteristics, such as age, education and income. Information gathered from epidemiological data analysis helps public health units to plan and develop programs, allocate resources, monitor changes, measure performance and evaluate program effectiveness.

A report published by the World Health Organization in 2017, *Guidelines on Ethical Issues in Public Health Surveillance*, stressed the importance of collecting data that is of sufficient quality, including being timely, reliable and valid, to achieve public health goals. Similarly, Ontario's Chief Medical Officer of Health released a report, titled *Mapping Wellness: Ontario's Route to Healthier Communities* in March 2017. The report stressed the importance of good local data in targeting public health problems. The report stated: "In many cases, health units lack the high-quality local data they need to map community wellness. Without that data, public health units are flying blind."

4.3.1 Not All Public Health Units Have Access to Local Epidemiological Data

Epidemiology data relevant to chronic disease, overall health, and health behaviour risk factors is primarily collected by organizations external to public health units. For instance, York University's Rapid Risk Factor Surveillance System is a survey service that gathers information on health behaviours of individuals 18 and older. Survey participants may be asked questions about smoking, physical activity, alcohol use, sun safety, women's health issues, bicycle helmet use, and more.

Public health units can individually contract this service, but only 13 of the 36 public health units did so in both 2016 and 2017. Many public health units that did not access this service cited cost as a concern. The 2016 survey cost each of the participating public health units between approximately $27,000 and $141,000 to collect the data in addition to dedicated administrative and epidemiologist staff time. The Ministry has not co-ordinated the access to this service for all 36 public health units. Conversely, Alberta funds the Alberta Community Health Survey, which collects annual data including health behaviour trends and

a variety of other topics, such as salt consumption, not available through other sources.

In addition, even though Statistics Canada's Canadian Community Health Survey—which collects information related to health status, healthcare use and health determinants for the Canadian population—is available to all public health units, sample sizes may be too low in some public health units to provide sufficient sub-population information within the public health units for program planning. Therefore, public health units, depending on the size of the population and local analysis needs, may need to combine a number of years of data to accumulate enough data to perform certain analyses, affecting their ability to use current information in their program development, in providing policy advice, and in monitoring performance.

4.3.2 Epidemiological Data on Children and Indigenous Populations Not Readily Available to Public Health Units

Because changing health behaviours early as opposed to later in life is more effective and has a more long-lasting impact, public health practitioners often target children as a priority population to deliver healthy living programs.

Similarly, Indigenous people in Ontario experience lower health status, including shorter life expectancy, higher infant mortality and higher rates of chronic diseases. Information that excludes the Indigenous populations can be highly misleading for northern health units; for example, the Northwestern unit has almost up to 30% Indigenous representation in its population.

We found that there is limited epidemiological data on school-age children and data on Indigenous people is generally not available to public health units.

Children

For children aged six to 12, there is minimal provincial data. A survey administered by select public health units in 2017 found that 94% of health units that responded to the survey indicated that Ontario does not have enough data on children and youth to meet local needs for assessment and surveillance, program planning and evaluation. Although there are other institutions that collect data on children, data from these sources is not readily available or representative of their populations to the public health units. Public health units can access information from these data sources only if schools specifically grant access to them, or the public health units have to pay to increase the sample size to be more representative for them.

Even though public health units can opt to obtain data on their own through conducting their own survey, these are costly and time-consuming. For example, one public health unit completed a local student survey in 2014. That survey involved three years of planning and over 100 staff to help administer the survey, including public health nurses, dental hygienists and assistants. A large part of the planning of the survey involved negotiations with the four different school boards and with the 165 schools involved in the survey.

Indigenous People

Information on Indigenous people is owned by Indigenous people and communities based on the First Nations' Ownership, Control, Access and Possession principles. Public health units are required to follow these principles when accessing this information. As a result, public health units with high Indigenous populations do not always have sufficient epidemiological data to conduct robust population health assessments. The Statistics Canada survey on Indigenous people excludes the on-reserve population, as well as some Northern Ontario and remote areas. As well, following the principles, the administrator of the provincial pregnancy and birth database removes birth information for people who live on reserves when providing the information to public health units.

Given the importance of having complete information to undertake health assessments, it would be prudent for the Ministry to work collaboratively with, and provide support as required to, public health units and Indigenous populations to ensure their data is being used to meet their health needs, while at the same time respecting the communities' right to make their own decisions regarding why, how and by whom information is collected, used or shared.

4.3.3 Lack of Standards on Extent of Epidemiological Work Needed

The Ministry has not established any specific standards on how much epidemiological work the public health units have to undertake for most topic areas, nor assessed whether certain epidemiological analyses should be conducted centrally. As a result, there is no assurance that public health units have conducted the proper analysis of population data to design their programming.

In response to our survey, some public health units indicated that they do not have the required epidemiologist time to review and analyze the data, and some units do not have any or enough epidemiologists on staff. At the time of our audit, about one quarter of the 36 public health units reported not having one or more epidemiologists employed full-time since 2014. Further, 45% of medical officers of health and chief executive officers reported not having sufficient surveillance and epidemiological capacity at their health unit. As well, 21 public health units commented on the need for central support for epidemiology, surveillance and population health assessments.

Defining the amount of work needed is important to guide the public health units in conducting their epidemiological work. Epidemiologists at two of the health units we visited only analyzed a small fraction of the purchased epidemiological data from a public health data surveying service administered by a university. One public health unit analyzed only five of the 200 modules of data that were available and the other expected to disseminate its 2016 data in 2018.

In contrast, Alberta's health agency has a central epidemiological analysis tool that collects information from key data sources and automatically updates and performs local analysis. This analysis includes analysis by neighbourhoods (in metropolitan areas) as well as analysis of health behaviour information by socio-economic status, age and gender. These are all types of analyses that are required of public health units in Ontario but only rarely completed in practice for all health behaviour indicators.

RECOMMENDATION 6

To support public health units to more efficiently and cost-effectively obtain and analyze epidemiological data for program planning and evaluation, we recommend that the Ministry of Health and Long-Term Care, working with Public Health Ontario and the public health units:

- evaluate the feasibility of centralizing epidemiological expertise that can perform analyses or provide assistance to all public health units;
- establish benchmarks for the extent of epidemiological analyses of chronic diseases needed and monitor whether these benchmarks are met;
- approach and work with Indigenous community leadership to obtain epidemiology data that would serve to inform program development to benefit the Indigenous communities in Ontario; and
- identify other areas in which relevant data is not consistently available to all public health units, such as data on children and youth, and develop and implement a process to gather needed data.

MINISTRY RESPONSE

The Ministry agrees with the importance of supporting public health units to obtain and

analyze epidemiological data in an efficient and cost-effective manner. As part of the modernized Ontario Public Health Standards, and in collaboration with Public Health Ontario and public health units, the Ministry will:

- provide public health units with a common set of epidemiological data and population health indicators to assist in local population health assessment, program planning and evaluation;
- assess the feasibility of establishing and monitoring benchmarks related to the extent of epidemiological analyses of chronic diseases needed through the Public Health Accountability Framework;
- continue to work collaboratively with Indigenous communities to support their efforts, as appropriate and as requested, in a co-ordinated way at the local, regional and provincial levels, to improve collection and analysis of Indigenous-specific data in accordance with the principles of ownership, control, access and possession; and
- develop a provincial surveillance and monitoring strategy beginning in 2018/19 that will include a process of identifying and addressing data gaps related to chronic disease prevention.

4.4 Limited and Inconsistent Evaluations of Promotion of Healthy Living and Chronic Disease Prevention Programs

Evaluation of chronic disease prevention programs is crucial to ensure that public health units are providing educational materials, programs and services that meet their intended objectives and contribute to better health for their local population. The evaluations aim to understand the relationship between activities and outcomes. This is particularly important for chronic disease prevention programs because the measurable impact of these programs could be years out or be affected by other factors that might not be within the control of the public health units.

Public Health Ontario noted in an August 2016 introductory workbook for evaluating health promotion programs that a thorough program evaluation can help public health staff make ongoing decisions about the best use of time and resources, whether a program is meeting the needs of participants, and ways to improve the program. Similarly, the World Health Organization noted in a 2001 document, *Evaluation in Health Promotion – Principles and Perspectives*, that there must be evidence of health-promotion efforts' effectiveness and their relative costs, as compared with other health-promoting options, to demonstrate that the efforts remain accountable and sustainable.

Public health units are required to conduct evaluations when new programs or services are developed or put in place. For example, a public health unit that started a community pedometer lending program would be expected to assess whether the program reached the targeted people and contributed to increased activity levels. Units must also do evaluations when there is evidence of unexpected operational issues or program results. For example, a public health unit that noticed a significant drop in attendance at its tobacco cessation clinics would be expected to perform an evaluation.

4.4.1 Ministry Does Not Require Standard Methodology to Evaluate Programs

The Ministry simply instructs public health units to "use a range of methods" to evaluate programs but does not require them to use any established evaluation methodology. As a result, public health units have separately developed evaluation guidelines and templates and independently decided on acceptable levels of rigour.

Because the Ministry has not required all public health units to follow common guidelines when evaluating local programs, public health units each define what constitutes an evaluation. At the public

health units we visited, we noted that a range of evaluations was used, including:

- telephone calls to follow up with a teacher after a workshop at a school;
- a survey of the attendees who attended sessions, including questions such as "did the service meet your expectations" and "do you think the audience benefited from this service;" and
- relying on evaluations by the school where the workshops were held but having no access to these evaluation results.

We also noted that the two public health units that established their own methods of evaluation used varying approaches. One public health unit's evaluation policy document provided only high-level guidance on evaluation: It stated that evaluation should be built into all program plans but did not describe how the evaluation should be performed. In comparison, the other public health unit's evaluation policy is more detailed: It included steps in creating an evaluation plan, guidance on documenting the evaluation purpose, and deciding on appropriate evaluation questions.

The Ministry funds two health promotion resource centres (discussed in **Section 4.2.2**) to provide evaluation support to public health units. One of these resource centres supports research and evaluation for only one topic—tobacco. The other resource centre provides technical support for planning, training and increasing their ability related to program evaluation. Although the latter resource centre has developed an evaluation methodology, it was not used by the public health units we visited in planning their evaluation work. In addition, the resource centre offers technical and consultative advice including document reviews, but does not actually plan or implement program evaluations.

4.4.2 Most Public Health Units Self-Assessed Their Program Evaluation Ability as 'Developing'

Most of the public health units we visited did not have enough trained staff to effectively evaluate programs. Of the four public health units visited, two had just one evaluation specialist on staff with a background or experience in academic research, and one of them had no program planner and evaluator dedicated to evaluations until the end of 2015. Twenty-five percent of public health units surveyed noted that they did not have an employee dedicated to evaluation from 2014 to present and 28% noted that they only had an evaluation specialist employed at their health unit for a portion of that period. When public health units do not have the necessary capacity to evaluate their programs, the evaluations could lack depth and coverage to effectively measure whether the programs have been successful in achieving intended outcomes.

The public health units' evaluation capacity was assessed by a project team with representation from select public health units, using a tool adapted from another tool that was developed by an academic researcher. The project was conducted to assess the extent of evaluation capacity (including its infrastructure, dedicated personnel and resources) within and across the public health units and to identify areas for improvement.

The assessment categorized public health units as having low, developing, intermediate or established evaluation ability. Factors for having established capacity to evaluate programs include:

- a senior management team that values evaluations;
- sound data collection methods;
- evaluation skills are assessed regularly to identify gaps and corresponding training;
- policies and procedures have been established to guide evaluation activities; and
- program managers and/or staff understand the purpose of the evaluation and how it is used.

Of the 32 public health units that completed the self-assessment in 2015, only five self-ranked

as having intermediate capacity, 26 self-ranked as having developing capacity, one self-ranked as having low capacity, and none ranked themselves as having established evaluation capacity.

Key Shortcomings Identified

The self-assessments identified the following key shortcomings regarding program evaluation across Ontario's public health units:

- no existing framework or policy and procedures related to evaluations;
- lack of time and resources dedicated to evaluations;
- no clear methods of sharing evaluations; and
- use of findings tended to be limited to validating a program from a customer satisfaction approach rather than measuring program outcomes.

The project team did not officially share the results of this assessment with the Ministry but made the report available online.

As a result of this assessment, 10 public health units participated in a project to increase evaluation capacity by testing some of the strategies identified in the assessment to address the noted shortcoming. Some of the key messages from this project include: leadership at all levels is critical to have buy-in for evaluation, and staff members are eager to increase their skills and knowledge in this area. The results of this project are available online on Public Health Ontario's website.

4.4.3 Program Evaluations Not Sufficiently Completed

Under the Ontario Public Health Standards, the Ministry requires public health units to prepare program evaluations to:

- support the establishment of new programs and services;
- assess whether evidence-informed programs are carried out with the necessary reach, intensity, and duration; and
- document the effectiveness and efficiency of programs and services.

At the four public health units we visited, we found that these program evaluations were not always done. As well, the Ministry did not know this because it has no mechanism to monitor whether public health units are completing program evaluations.

We noted the following:

- One public health unit evaluated certain aspects of just three of its 42 chronic disease prevention programs and services, such as workshops, presentations and training sessions introduced in the last three years. This health unit did not evaluate new programs as required, including a billboard campaign and workshops to promote awareness and understanding of physical activity, a running program for school-age children, a food preparation program, a student nutrition program, a community gardens program, and workplace wellness programs.
- Three public health units had not evaluated a comprehensive school health approach, which addresses school health in a planned, integrated, and holistic way in order to support improvements in student achievement and well-being. One health unit explained that it did not evaluate the program because it is best practice and internationally recognized; the other two cited a lack of resources and support.
- One public health unit developed an adult food skills program drawing in part from an effective program developed in the United States. However, it delivered only one to five sessions of the program, despite an evaluation of the U.S. program showing that delivering more than 11 sessions would produce the highest impact and delivering fewer than six sessions would potentially have no effect.

In our survey of the 36 public health units, staff from 19 of them noted that their public health units completed five or fewer evaluations of chronic

disease prevention programs and services, which assessed change in knowledge, skill or attitude as a result of the public health units' actions.

Evaluations Do Not Measure Outcomes or Cost-Effectiveness

Three public health units focused their limited evaluation efforts on process and/or client satisfaction. While these evaluations can help the public health units assess whether the program was delivered according to plan and whether participants or target audiences were satisfied with the program, they do not assess outcomes, such as awareness, knowledge, attitudes, skills and a reduction in harmful behaviours. In fact, in response to our survey, 50% of public health units noted that they had performed two or fewer evaluations that assessed a change in behaviour from 2014 to spring 2017 on their chronic disease prevention programs. Fourteen percent of health units reported having no evaluation of this type.

One of the evaluations we reviewed at a public health unit was on a fruit and vegetable program that allows community members to pick fruit and vegetables that farmers would otherwise dispose of because they are not saleable. The evaluation tried to measure the amount of produce picked by the program participants, but not whether the program led to increased consumption of fruit and vegetables. The survey of program participants asked participants whether they were likely to continue eating fruit and vegetables but did not ask whether the participants ate similar amounts of fruit and vegetables prior to picking the fruit and vegetables, rendering the survey responses inadequate in measuring the impact of this program.

Another health unit frequently used client satisfaction surveys that asked clients what they learned from a workshop. However, there was no pre-activity survey nor was there a follow-up with clients at a later date. Therefore, whether anything was learned or retained is not effectively assessed.

Having benchmarks for program outcomes and resource requirements for programs that are commonly delivered across the 36 public health units can help identify where the health unit should allocate its resources and ensure that program costs do not exceed benefits. None of the program evaluations we reviewed compared the cost or investment in the program with the benefits received to assess program cost-effectiveness. In addition, almost three-quarters of the senior chronic disease prevention staff who responded to our survey indicated that their evaluation of chronic disease prevention programs or services does not compare or attempt to compare costs to benefits.

RECOMMENDATION 7

To support the public health units to effectively evaluate their chronic disease prevention programs, we recommend that the Ministry of Health and Long-Term Care:

- develop guidance material on program evaluations and require all public health units to follow common, evidence-based evaluation principles;
- monitor the public health units' efforts to increase their ability to conduct evaluations;
- ensure public health units evaluate programs as per Ministry requirements; and
- establish provincial benchmarks for public health units to use when comparing the cost of significant programs with outcomes.

MINISTRY RESPONSE

The Ministry agrees with the importance of public health unit evaluations of local chronic disease prevention programs. As part of the modernized Ontario Public Health Standards, the Ministry will:

- include specific program evaluation requirements for Boards of Health within the modernized standards, with supporting guidance material, training supports and/or reference documents, beginning in 2018/19;

- monitor public health unit efforts to increase their ability to conduct evaluations through the Public Health Accountability Framework and take appropriate follow-up actions as needed; and
- compare public health unit reporting of unit costs of service delivery as appropriate within the Public Health Accountability Framework.

The Ministry will further enhance capacity in evaluation expertise across the sector as part of the Ministry's new Health and Well-Being Grant Program, to be implemented in 2018/19.

4.4.4 Public Health Units Do Not Track Chronic Disease Prevention Programs' Progress against Goals

Public health units are required to document and monitor their chronic disease prevention program objectives, timeframes for achieving these objectives and intended results. These objectives guide the planning and development of individual public health programs and services, the evaluation of which was discussed in **Sections 4.4.1** to **4.4.3**.

All four public health units we visited had documented the objectives and intended results of their chronic disease prevention programs to varying degrees, but they did not always have measures in place for these objectives or provide a timeframe for achieving these objectives. As a result, public health units cannot demonstrate that their chronic disease prevention programs have achieved intended outcomes.

Only one of the four units had program objectives that include measurable outcome target, such as "decrease to 70% of [public health unit] residents aged 18 and over who report consuming sugar-sweetened beverages at least once in the last seven days" and "increase to 50% [public health unit] residents 12 years and older who eat fruit and vegetables five or more times daily."

The other three health units had no measureable outcome targets for their objectives. Instead, these health units established general goals. For example, they had goals to reduce consumption of sugar-sweetened beverages or improve eating habits in their residents, but had no baseline information or plans to measure the change in these behaviours to determine whether they achieved their objectives.

Furthermore, senior chronic disease prevention staff at 45% of public health units responding to our survey noted that progress against performance objectives related to chronic disease is only sometimes or rarely tracked in a meaningful way. The Ministry does not monitor whether the public health units are, in fact, staying informed about health behaviour trends as required. As well, it is up to the public health units to determine how much monitoring work they undertake. We found that two of the health units we visited had no regular monitoring on any of these behaviours and another updates such information as infrequently as every five years.

RECOMMENDATION 8

To effectively measure the impact of chronic disease prevention programs and services, we recommend that the Ministry of Health and Long-Term Care require public health units to develop measurable program objectives and establish timeframes for achieving these objectives.

MINISTRY RESPONSE

The Ministry agrees with the importance of effectively measuring the impact of local chronic disease prevention programs. As part of the modernized Ontario Public Health Standards, the Ministry will require public health units to develop measurable program objectives for their local programs of public health interventions to support chronic disease prevention, beginning in 2018/19.

4.5 Performance of Public Health Units Not Sufficiently Measured and Reported

4.5.1 Current Performance Indicators Do Not Fully Measure Public Health Units' Performance in Preventing Chronic Diseases and Promoting Health

Between 2014 and 2016, the Ministry required all 36 public health units to report their annual performance on 10 health-promotion performance indicators, as shown in **Figure 8**.

We found that these indicators are not solely attributable to the work of the public health units, some indicators are not meaningful, and the suite of indicators does not fully measure all key risk factors affecting chronic diseases. As a result, the Ministry could not sufficiently measure the performance of the public health units in delivering their health promotion programs and services.

In November 2015, the Minister of Health and Long-Term Care announced that the Ministry would modernize the Ontario Public Health Standards, which would include updating the indicators used to measure public health units' performance. Changes to the new standards include a focus on the Board of Health's contribution to population health outcomes and program outcomes that represent the anticipated results achieved through delivery of public health programs and services.

As the Ministry transitions to the new standards, in 2017 it required the public health units to report on only two of the 10 health-promotion indicators: the percentage of tobacco vendors that are in compliance with youth access legislation; and the percentage of tobacco retailers inspected once a year.

The Ministry expects the new standards to come into effect in January 2018, with the finalization of the performance indicators to follow.

Indicators Not Solely Attributable to Public Health Units' Work

Public health staff have noted that changes in a number of performance indicators cannot be solely attributed to the effort of the public health units. The health promotion indicators that involve both the work of public health units and others include the following three outcome indicators:

- % of population aged 19 and up that exceeds the Low-Risk Alcohol Drinking Guidelines;
- % of youth aged 12 to 18 who have never smoked a whole cigarette; and

Figure 8: Health Promotion Indicators Used by the Ministry of Health and Long-Term Care to Measure Performance of Public Health Units, 2016

Source of data: Ministry of Health and Long-Term Care

Areas	#	Health Promotion Indicators
Tobacco	1	% of tobacco vendors in compliance with youth access legislation at the time of last inspection
	2	% of secondary schools inspected once per year for compliance with section 10 of the *Smoke-Free Ontario Act*
	3	% of tobacco retailers inspected for compliance with section 3 of the *Smoke-Free Ontario Act*
	4	% of tobacco retailers inspected once per year for compliance with display, handling and promotion sections of the *Smoke-Free Ontario Act*
	5	% of youth (ages 12-18) who have never smoked a whole cigarette
Healthy Eating	6	Implementation status of NutriSTEP Preschool Screen (a nutrition risk-screening questionnaire)
	7	Baby-Friendly Initiative status
Alcohol Use	8	% of population (aged 19+) that exceeds the Low-Risk Drinking Guidelines
Injury Prevention	9	Fall-related emergency visits in older adults aged 65+
Oral Health	10	Oral Health Assessment and Surveillance: % of all Junior Kindergarten, Senior Kindergarten and Grade 2 students screened in all publicly funded schools

- fall-related emergency visits in adults aged 65 and up.

For these indicators, public health units work with other partners, such as schools, recreation centres, cultural organizations, welcome centres, new immigrant groups, home and community-care providers, health promoters, health-care providers in Community Health Centres, and other primary care settings and not-for-profit organizations that advocate for healthy living. As such, monitoring of these indicators is likely more suited for the Ministry to assess how well the public-health sector is performing in these areas at the provincial level. These measures do not provide much insight on public health units' performance at the local level.

As well, the Ministry did not establish targets in these three areas to help drive performance improvement at the public health units. Instead, it simply collected the data as reported.

Public health units that responded to our survey noted there are indicators that reflect the performance of public health units better, such as an improved quit rate for tobacco smoking and increased healthy-eating knowledge for individuals who attend public health units' programs.

Indicators Do Not Measure More Meaningful Information

Two health-promotion indicators measure aspects of public health units' activity that are already or nearly achieved and therefore do not provide meaningful data to the Ministry. These two areas are the implementation of NutriSTEP (a nutrition risk-screening questionnaire) and the designation status of the Baby-Friendly Initiative (regarding breastfeeding). In 2016, 25 of the 36 public health units have already earned the designation, 11 of which have achieved this status since 2013 and eight are close to being designated for the Baby-Friendly Initiative and 35 out of 36 have implemented NutriSTEP.

Given that implementation has nearly been achieved for these two areas for almost all public health units, the Ministry could now measure the quality and reach of these programs, such as the number of children screened by the NutriSTEP program and referred to appropriate resources, and the breastfeeding initiation and duration rates as a result of the Baby-Friendly Initiative implemented in the respective public health units. These measures would be more meaningful than simply asking the public health units to report on the implementation of the initiatives.

Suite of Indicators Does Not Fully Measure All Key Risk Factors

Of the five remaining health promotion indicators, four relate to tobacco control and one relates to oral health. There are no indicators to measure public health units' achievement toward reducing other key risk factors, such as physical inactivity, unhealthy eating and unhealthy weights.

About one-third of the public health staff responsible for reporting on performance indicators who responded to our survey reported that the areas in which the Ministry measures public health units are not sufficient and appropriate in measuring the public health units' performance. The respondents noted the indicators only reflect a small portion of what public health units do and do not reflect their impact on improving the health of the community.

RECOMMENDATION 9

To properly measure the public health units' performance in delivering their health promotion programs and services, we recommend that the Ministry of Health and Long-Term Care:

- put in place relevant indicators that are linked to the planned new Ontario Public Health Standards and that measure areas attributable to the public health units; and
- establish targets that reflect expected performance to promote continuous improvement.

MINISTRY RESPONSE

The Ministry agrees with the importance of measuring public health unit performance in delivering local programs and services. As part of the modernized Ontario Public Health Standards, the Ministry will:

- implement a Public Health Indicator Framework that will include specific indicators to measure chronic disease prevention outcomes across the province that are consistent with the program outcomes specified in the modernized standards; and
- monitor public health unit actual versus expected performance and outcomes through required submission of planning and reporting tools by Boards of Health to the Ministry, including the Board of Health Annual Service Plan and Budget Submission, performance reports and an Annual Report.

These tools will enable Boards of Health to demonstrate that they are meeting defined expectations and provide appropriate Ministry oversight for public funding and resources.

4.5.2 Lack of Public Reporting on Public Health Units' Chronic Disease Prevention Performance

While some public health units individually report their performance on the 10 health promotion indicators to their Board of Health through meetings that are open to the public, the Ministry does not publicly report the performance results of all public health units. Respondents to our survey expressed that the Ministry should publicly release overall data so that the public health units can understand how the sector is performing as a whole; specifically, health units can gain a better sense of the public-health sector's performance against targets, and how individual public health unit performances compare with other health units' and the provincial results.

The public disclosure of performance results could contribute toward continually improving the quality of services and programs and enhancing public health units' accountability to taxpayers, who fund and use their services and programs.

4.5.3 Limited Ministry Insights on Public Health Units' Use of Resources

The Ministry has limited insights into whether public health units' use of provincial funding is cost-effective. The performance indicators included in the Public Health Funding and Accountability Agreement between the Boards of Health and the Ministry measure areas only regarding health promotion and health protection, but do not extend to any operational aspects of the public health units.

Outside of performance indicator reporting, the public health units provide the number of full-time equivalents devoted to chronic disease prevention, other mandatory programs and the entire organization, as well as the related salary cost to the Ministry through their annual funding request. In 2016, of the estimated total 7,500 full-time equivalents for the public health units, about 980 were allocated to chronic disease prevention under the Ontario Public Health Standards.

While the 36 public health units on average devoted 12% of their full-time equivalents to chronic disease prevention, 17 devoted less than the provincial average, with three health units devoting 6% and two health units devoting up to 20% of their total full-time equivalents to chronic disease prevention. While the differences could be attributed to local decisions of the Boards of Health that are independent of each other and the priorities of each public health unit, the Ministry does not know whether these differences are justified.

Without measuring how efficient the public health units are at using provincial funding to provide chronic disease prevention programs, the Ministry cannot demonstrate that provincial funding on chronic disease prevention has resulted in positive outcomes on each public health unit's overall program objectives.

RECOMMENDATION 10

To continually improve the accountability and transparency of the public health sector's performance, we recommend the Ministry of Health and Long-Term Care:

- publicly report on the public health units' performance, including annual results and targets of their performance indicators; and
- develop a procedure to monitor the amount of their resources public health units invest in chronic disease prevention programs against the outcomes of those programs.

MINISTRY RESPONSE

The Ministry agrees with the importance of continually improving the accountability and transparency of the public health sector's performance. Transparency and accountability are key components of the modernized Ontario Public Health Standards. As part of the Public Health Accountability Framework, which supports the modernized standards, the Ministry will:

- require Boards of Health to publicly report on their performance through an annual financial and performance report beginning in 2018/19; and
- develop procedures to monitor the amount of resources public health units invest in chronic disease prevention programs against the outcomes of these programs.

4.6 Full Rollout of Needs-Based Funding Model May Take Up to 10 Years

The current level of provincial funding to the public health units has been primarily driven by historical decisions and is not based on any distribution formula.

Over the years, public health units' funding has been influenced by many factors, such as historical unequal allocations, traditional arrangements with municipalities to share costs, and provincial priorities for program expansions and/or programs and services required to meet local needs. However, demographics and local needs have evolved over time.

As a result, per capita funding of public health spending varies widely across the 36 public health units in the province. In 2016/17, per capita funding per public health unit averaged $64.40, and ranged from the lowest of $36.89 for Halton Region to the highest of $133.61 for Timiskaming, as shown in **Figure 9**.

We noted that this concern of funding disparity had been identified in our two previous audit reports on public health in 1997 and 2003, as well as in the Ministry's Local Public Health Capacity Review Committee in 2006.

New Funding Model Recommended in 2013

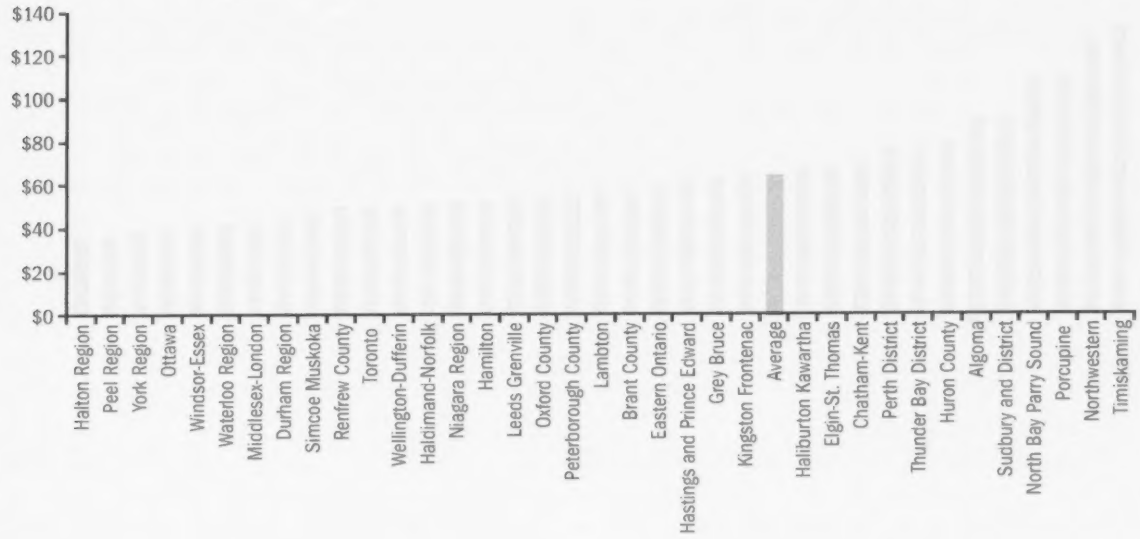
In 2010, the Ministry convened a Funding Review Working Group to investigate the status of public health funding at that time, provide advice to the Ministry on a future public-health funding model, and advise the Ministry on principles for setting up the funding model. The objectives of the review were to develop a needs-based approach to public health funding and reduce funding inequities among public health units over time.

The Working Group presented its final report to the Ministry in December 2013. It recommended using a new model to identify an appropriate funding share for each public health unit. The model is based on many factors, including population, health risks, cost of living, low birth rates, preventable mortality rates, geography, language, immigrant status, and education.

Since the recommendation by the Working Group, the Ministry provided increases of 2% ($11 million) to eight public health units in 2015 and 1% ($6 million) to 10 public health units in 2016 for the health programs and services set out in the *Health Protection and Promotion Act* using the new funding model. The Ministry did not give any

Figure 9: Provincial Per Capita Funding of All 36 Public Health Units, 2016/17

Source of data: Ministry of Health and Long-Term Care



increase in funding to the public health units using the funding model in 2017.

The Ministry has not set a target date for when public health units will reach their modelled share of funding. It has estimated it could take 10 years to ensure public health funding is more equitably allocated to all health units, assuming a 2% growth rate and that future incremental funds are targeted to units that do not yet receive their modelled share of funding. The final report of the Expert Panel on Public Health released in July 2017 recommended that the 36 public health units be reorganized into 14 regional public health entities. If the Ministry adopts the recommendation, the funding model recommended by the Funding Review Working Group in 2013 may become obsolete and a new funding model would have to be established.

We also found that the Ministry generally does not finalize funding decisions for the public health units until the last quarter in the year. This leaves very little time for the public health units to deal with any unexpected changes in funding. Over 80% of the Medical Officers of Health and chief executive officers of the local public health units who responded to our survey identified that timeliness of funding approvals is a problem. They noted that it is challenging to plan programs and services without having the assurance of how much funding would be available to the public health units.

RECOMMENDATION 11

To reduce funding inequities among public health units and to support proper planning for programs and services, we recommend that the Ministry of Health and Long-Term Care:

- expedite its application of the model on public health units' funding developed by the Funding Review Working Group or establish a new funding approach that supports more equitable funding for public health units; and
- finalize the annual funding for public health units as early in the current fiscal year as possible.

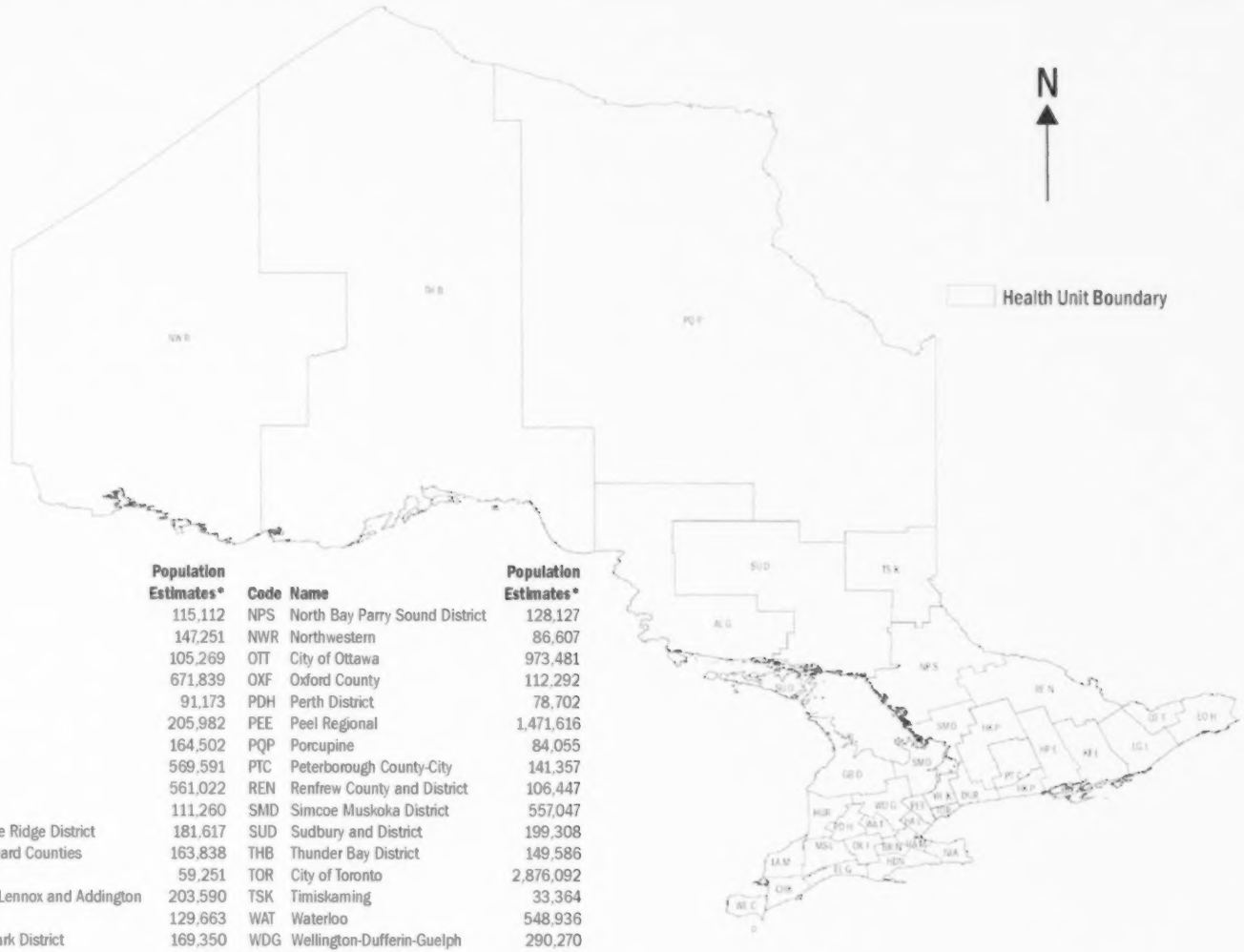
MINISTRY RESPONSE

The Ministry agrees with the importance of timely and equitable funding for public health units. To this end, the Ministry will:

- review the public health funding model in the context of public health transformation and make adjustments, as appropriate, in support of equitable funding approaches;
- continue to work toward finalizing annual funding adjustments for public health units as early in the current Ministry fiscal year as possible;
- continue to provide informal planning targets to the sector as early as possible to assist with budget planning and programming; and
- work toward extending the period of time public health units are permitted to use provincially approved funding to March 31 from December 31.

Appendix 1: Ontario Public Health Units

Source of data: Public Health Ontario, Statistics Canada



Code	Name	Population Estimates*
ALG	Algoma District	115,112
BRN	Brant County	147,251
CHK	Chatham-Kent	105,269
DUR	Durham Regional	671,839
ELG	Elgin-St. Thomas	91,173
EOH	Eastern Ontario	205,982
GBO	Grey Bruce	164,502
HAL	Halton Regional	569,591
HAM	City of Hamilton	561,022
HDN	Haldimand-Norfolk	111,260
HKP	Haliburton-Kawartha-Pine Ridge District	181,617
HPE	Hastings and Prince Edward Counties	163,838
HUR	Huron County	59,251
KFL	Kingston-Frontenac and Lennox and Addington	203,590
LAM	Lambton	129,663
LGL	Leeds-Grenville and Lanark District	169,350
MSL	Middlesex-London	475,881
NIA	Niagara Regional Area	453,817
NPS	North Bay Parry Sound District	128,127
NWR	Northwestern	86,607
OTT	City of Ottawa	973,481
OXF	Oxford County	112,292
PDH	Perth District	78,702
PEE	Peel Regional	1,471,616
PQP	Porcupine	84,055
PTC	Peterborough County-City	141,357
REN	Renfrew County and District	106,447
SMD	Simcoe Muskoka District	557,047
SUD	Sudbury and District	199,308
THB	Thunder Bay District	149,586
TOR	City of Toronto	2,876,092
TSK	Timiskaming	33,364
WAT	Waterloo	548,936
WDG	Wellington-Dufferin-Guelph	290,270
WEC	Windsor-Essex County	407,985
YRK	York Regional	1,157,704

* Based on 2016 data from Statistics Canada.

Appendix 2: Summary of Standards, Requirements and the Related Goals in the Ontario Public Health Standards for Ontario's Public Health Units

Prepared by the Office of the Auditor General of Ontario using data from the Ministry of Health and Long-Term Care

Standards		Goal	Examples of Requirements on the Public Health Units
Foundational Standard			
1	Population Health Assessment, Surveillance, Research and Knowledge Exchange, and Program Evaluation	Public health practice responds effectively to current and evolving conditions, and contributes to the public's health and well-being	• Tailor public health programs and services to meet their local needs, and communicate public health information to the public, health-care providers, and community partners • Monitor programs and services to determine whether intended outcomes are being achieved and whether performance can be improved through changing the reach, intensity, or duration of programs
Chronic Diseases and Injuries Program Standards			
2	Chronic Disease Prevention	To reduce the burden of preventable chronic diseases of public health importance	• Develop policies and increase awareness of healthy eating, weights, tobacco controls, alcohol use, physical activity, and ultraviolet radiation exposure
3	Prevention of Injury and Substance Misuse	To reduce the frequency, severity, and impact of preventable injury and of substance misuse	• Develop and promote healthy policies on alcohol and other substances, falls prevention, road and off-road safety
Family Health Program Standards			
4	Reproductive Health	To enable individuals and families to achieve optimal pre-conception health, experience a healthy pregnancy, have the healthiest newborn(s) possible, and be prepared for parenthood	• Promote pre-conception health, healthy pregnancies, reproductive health outcomes, and preparation for parenting
5	Child Health	To enable all children to attain and sustain optimal health and developmental potential	• Promote positive parenting, breastfeeding, healthy family dynamics, healthy eating, weights and physical activity, growth and development, and oral health
Infectious Diseases Program Standards			
6	Infectious Diseases Prevention and Control	To prevent or reduce the burden of infectious diseases of public health importance	• Improve public knowledge on infectious diseases that are locally relevant, respiratory etiquette (sneezing/coughing), hand hygiene, vaccinations and medications, infection prevention and control • Manage cases and outbreaks of infectious diseases
7	Rabies Prevention and Control	To prevent the occurrence of rabies in humans	• Improve public knowledge on rabies prevention and control

Standards		Goal	Examples of Requirements on the Public Health Units
8	Sexual Health, Sexually Transmitted Infections, and Blood-Borne Infections (including HIV)	To prevent or reduce the burden of sexually transmitted infections and blood-borne infections; to promote healthy sexuality	• Promote healthy sexuality and access to sexual health services • Prevent adolescent pregnancies, and sexually transmitted and blood-borne infection
9	Tuberculosis Prevention and Control	To prevent or reduce the burden of tuberculosis	• Surveillance of active tuberculosis and individuals with latent tuberculosis • Provide or ensure access to tuberculosis medication at no cost
10	Vaccine Preventable Diseases	To reduce or eliminate the burden of vaccine preventable diseases	• Maintain records and report on the immunization status of children • Promote and provide immunization to all eligible persons
Environmental Health Program Standards			
11	Food Safety	To prevent or reduce the burden of food-borne illness	• Surveillance of food-borne illnesses and inspection of food premises
12	Safe Water	To prevent or reduce the burden of water-borne illness related to drinking water; and to prevent or reduce the burden of water-borne illness and injury related to recreational water use	• Surveillance of drinking water systems and drinking water illnesses, public beaches and public beach water illnesses
13	Health Hazard Prevention and Management	To prevent or reduce the burden of illness from health hazards in the physical environment	• Increase public awareness of indoor or outdoor air quality, extreme weather, climate change, exposure to radiation • Respond to and manage health hazards
Emergency Preparedness Program Standard			
14	Public Health Emergency Preparedness	To enable and ensure a consistent and effective response to public health emergencies and emergencies with public health impacts	• Develop plans to keep critical services operational during emergencies

Appendix 3: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Roles and responsibilities are clearly defined and accountability requirements are in place to support the cost-effective delivery of public health programs.
2.	Co-ordination between the Ministry, Public Health Ontario, Boards of Health and other parties (including other ministries, other levels of governments, and stakeholder associations) are in place to facilitate development, delivery and evaluation of programs.
3.	Current evidence and best practices are used to inform the development of strategies, action plans and programs to meet population needs.
4.	Programs are established and delivered in an equitable and cost-effective manner.
5.	Strategies and programs are continuously evaluated and revised as needed using acceptable program evaluation methods.
6.	Oversight entities exercise their responsibilities to ensure compliance with legislated requirements and policies and ensure timely corrective action is taken to address identified areas of concerns.
7.	Resource provision is sustainable, predictable and allocated based on areas of identified need. Annual funding is finalized on a timely basis.
8.	Performance measures and targets are established, monitored and compared against actual results to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.

Section 3.11 Real Estate Services

1.0 Summary

The Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) is a Crown agency under the Ministry of Infrastructure (Ministry). One of Infrastructure Ontario's responsibilities is to manage a large and diverse portfolio of real estate owned and leased by Ontario Government ministries and some agencies (government properties).

Infrastructure Ontario is responsible for helping its client ministries and agencies find space by either matching their needs to available space in government properties or leasing other space within the private sector. It is also responsible for managing these properties, including the costs of cleaning, repairs and maintenance, security, utilities, property taxes, and, for government-owned land and buildings, their sale or demolition. Infrastructure Ontario has an external property and land manager, which is a real estate services company, that provides all the operating and maintenance work for Infrastructure Ontario's client ministries and agencies. Further, Infrastructure Ontario is responsible for overseeing capital projects, namely the construction, rehabilitation and renovation of government properties. In 2014, it contracted with two external project managers to oversee its capital projects, which includes overseeing general contractors selected through competitive processes.

About 9% of government properties, based on rentable square feet as of March 31, 2017, were procured through the Alternative Financing and Procurement (AFP) model developed by Infrastructure Ontario about 10 years ago. Under the AFP model, construction of a project is financed and carried out by the private sector, and, in some cases, the private-sector company is also responsible for maintaining the asset over a 30-year contract. A number of hospitals are maintained through AFP agreements, and, while Infrastructure Ontario is not directly involved in managing hospitals' AFP agreements, it offers guidance to the hospitals when requested.

Our audit determined that Infrastructure Ontario's management of government properties was impacted in part by weaknesses in the Enterprise Realty Service Agreement (Agreement) between Infrastructure Ontario and the Ministry of Infrastructure. The Agreement does not set out any mandatory, minimum standard of performance for managing the costs of capital projects. It also does not set out timelines for meeting the accommodation standard for office space designed to ensure that existing government properties are used efficiently, and timelines for maintaining the state of government-owned properties to the Agreement's standard.

These areas are interdependent because not ensuring that costs are reasonable has led to fewer

resources being available to maintain aging government properties. Deferred maintenance of buildings has more than doubled from $420 million as of March 31, 2012, to $862 million as of March 31, 2017. Over the last six years, the condition of government properties has deteriorated from excellent to almost a poor level of condition as measured by the industry standard.

Our audit found significant opportunities for savings, for example by:

- reducing the square footage in government office space to meet the 2012 Office Accommodation Standard of 180 rentable square feet per person;
- more effectively disposing of vacant buildings that were incurring carrying costs; and
- revising future AFP agreements to better support hospitals in obtaining cost-effective maintenance agreements.

Pertaining to **capital projects**, our audit found:

- **The design of a Request for Proposals (RFP) approach attracted few bids for the management of 7,500 capital projects**—In 2014, the structure of Infrastructure Ontario's public RFP to select external project managers for the management services of capital projects worth $900 million over five years did not attract the interest of a broad range of companies. Due to the structure of the RFP—which divided the province into two areas—only three bids were received, all from large companies. Of the two companies Infrastructure Ontario chose to procure services from, one project management company had performed poorly in its previous contract between 2011 and 2014. For example, it received low scores on Infrastructure Ontario's client satisfaction survey over those years, and failed to meet key performance measures for staying on budget and completing projects on time.
- **Better oversight of external project managers' procurement methods for capital projects is needed**—Infrastructure Ontario does not obtain enough information from its external project managers to assess whether procurements are done in a competitive and fair manner. Specifically, Infrastructure Ontario does not track how many vendors bid on capital projects and which vendors are winning the bids. Vendors are normally selected through a vendor-rotation process operated by an electronic bidding service that invites vendors of record to bid on projects in a fair manner. However, since 2013/14, Infrastructure Ontario has allowed its external project managers to select vendors from its vendor-of-record list and manually add them to the list of bidders. We identified 321 projects worth nearly $49 million between 2013/14 and 2016/17 awarded to companies that were manually added to the list of bidders by the external project managers.
- **Infrastructure Ontario is using preliminary estimates to prioritize which capital projects to do**. Infrastructure Ontario informed us that the initial cost estimates derived from its asset management system are limited as they do not factor in the additional costs that might be incurred to address actual site conditions. The engineering firm that we contracted with to advise us also agreed with this assessment. Infrastructure Ontario uses these initial cost estimates for prioritizing which projects to do for the current year and the next two years based on the estimated cost of the projects and the funding that is available. Since subsequent estimates and the actual cost of the projects tend to be significantly higher than the initial cost estimates, Infrastructure Ontario is not prioritizing projects based on complete cost estimates. This could increase the risk of selecting projects that do not yield the highest cost-benefit.
- **Minimal incentive exists for external project managers to manage costs**—Total management fees of $56.5 million were paid between 2011/12 and 2015/16 to three

external project managers; of that, only 0.5% was for delivering projects on budget. Moreover, external project managers receive a smaller amount of performance pay (and therefore are financially penalized) if they underspend by more than 5% of the total amount Infrastructure Ontario allocates for projects to be spent by March 31, the end of the fiscal year, because funding cannot be carried forward to the next fiscal year.

- **External project managers do not have an incentive to complete projects on time**—External project managers are not held accountable for meeting the original completion dates, and Infrastructure Ontario does not track these dates. Our review of a sample of capital projects completed between April 2013 and March 2017 indicated that these capital projects, which cost $76 million, were completed on average about 330 days later than originally scheduled. For example, one of the client ministries informed us that its capital project had been delayed due to the external project manager not having sufficient staff to oversee projects. External project managers can revise project completion dates while the project is ongoing, and Infrastructure Ontario does not always ensure the change is for valid reasons.
- **Capital repair funds used to fund operating costs for managing government properties**—Infrastructure Ontario collects base rent from client ministries and their agencies that, according to its guidelines, should be used to cover the cost of future capital repairs in government properties. However, Infrastructure Ontario informed us that, due to insufficient revenue to fund its operating costs for managing government properties, it used a total of $202 million over six years from base rent to pay for these operating costs. While this is not explicitly prohibited under the Enterprise Realty Service Agreement between Infrastructure Ontario and the Ministry, it has led to a further deterioration of government-owned buildings.

Pertaining to **operating and maintenance services**, our concerns are as follows:

- **Infrastructure Ontario provides insufficient information on operating and maintenance services to its client ministries and agencies**—Infrastructure Ontario's external property and land manager is required to arrange operating and maintenance services for Infrastructure Ontario's client ministries and agencies, which then pay Infrastructure Ontario for the services. However, invoices received by client ministries did not provide sufficient information on the volume and types of services they were paying for. Ministries informed us that they could not determine whether they were receiving the services paid for because they were not provided with building-specific information on what services they were supposed to be receiving.
- **Office space per person exceeds the Ministry standard**—Over $170 million in office accommodation costs could be saved annually if effective steps are taken to reduce the space occupied per government staff person to comply with the 2012 Office Accommodation Standard of 180 rental square feet per person set by the Ministry of Infrastructure. Neither the Ministry nor Infrastructure Ontario has set a goal for when this standard should be met.
- **Almost $19 million spent in one year on operating and maintaining 812 vacant buildings**—Infrastructure Ontario incurred $18.9 million in rent paid to third parties, property taxes and operating and maintenance costs for 812 vacant buildings across the province in 2016/17. Infrastructure Ontario does not consistently track how long buildings are vacant, but we found about 600 of the 812 had been vacant for an average of almost eight years. Vacancy dates for the remaining 212 buildings were not readily available. Further, Infrastructure Ontario was only able

to sell 40% of the buildings it planned for the 2016/17 fiscal year.

Pertaining to **Alternative Financing and Procurement (AFP) arrangements**, we found that Infrastructure Ontario's framework did not handle maintenance costs effectively in some hospitals. Our specific concerns are as follows:

- **AFP agreements have not been structured to cover all maintenance work that hospitals require**—Management at hospitals we spoke to are involved in long-term, ongoing disputes with private-sector companies over interpretations of the maintenance portion of their AFP agreements. They have not been able to realize many of the benefits they expected under AFP agreements, including having the cost of all maintenance that they require covered by the payments established in these agreements. Hospitals informed us that they are paying higher-than-reasonable rates to the private-sector company for carrying out maintenance work considered outside of the AFP agreement.
- **One private-sector company with a history of poor performance is still being awarded new contracts by Infrastructure Ontario**—Infrastructure Ontario does not have a formalized performance evaluation program of private-sector companies during the maintenance phase of the AFP contract, and new AFP contracts are awarded without consideration of past performance. This has resulted in companies with past poor performance receiving contracts. For example, one private-sector company that has been in dispute with a hospital since 2013 over what work is included in the AFP agreement was awarded contracts—in 2016 for $1.3 billion and in 2017 for $685 million—to design, build, finance and maintain two more hospitals. The dispute is still ongoing.

This report contains 13 recommendations, with 28 action items, to address our audit findings.

Overall Conclusion

Infrastructure Ontario could maintain government properties more cost-effectively by better overseeing the companies that it has engaged to provide most capital repair and property management services to ensure costs for capital repairs and property management services are reasonable and projects are completed on time. As well, existing government properties could be used more efficiently, with people occupying less space per person. The agreement between Infrastructure Ontario and the Ministry of Infrastructure needs better performance standards to incentivize Infrastructure Ontario to manage and maintain government properties more cost-effectively.

We also found that the Alternative Financing and Procurement maintenance framework often did not support the cost-effective management of building maintenance in hospitals that was intended when the arrangements were structured.

OVERALL RESPONSE FROM INFRASTRUCTURE ONTARIO

Infrastructure Ontario appreciates the work of the Auditor General's office in examining the government properties it manages. This report could contribute to the modernization of government properties. Infrastructure Ontario will implement the recommendations. The government's properties that Infrastructure Ontario manages were built on average 49 years ago. These buildings are costly to maintain, and state-of-good-repair investments are not fully funded. It is significant that the Auditor General acknowledged that it is unsustainable to manage the real estate portfolio in 2017 with a funding model from 1998.

Within the funds, policies and mandates set by the Ministry of Infrastructure, Infrastructure Ontario has taken a modern approach to real estate. This includes in-house experts and strategic contracts with outsourced service providers. Other owners, like the Government

of Canada and the City of Toronto, are taking an approach similar to Infrastructure Ontario's. Infrastructure Ontario will continue to work with the Ministry to continue to evolve the real estate model to meet the needs of government ministries and the public interest. Infrastructure Ontario will continue to deliver positive value for money for taxpayers by striking the appropriate balance between the number of qualified providers and the economies of scale, while using performance-based contracts that share risk.

Infrastructure Ontario is committed to open, fair, transparent and competitive procurements. It will continue to work with all service providers to ensure robust processes are in place to avoid conflicts of interest and to enforce ethical and legal requirements. Infrastructure Ontario will continue to improve its oversight of service providers through data analytics, audits and the use of key performance indicators.

In conjunction with the Ministry of Infrastructure and other ministries, Infrastructure Ontario will continue to reduce the government properties' footprint and capital repair backlog, using the available funding and through rightsizing of the portfolio and ministry accommodation space. Substantial reductions in the deferred maintenance backlog, improvement in the portfolio's facilities condition index and footprint reduction will result from the completion of the Macdonald Block Reconstruction Project that is now underway.

Infrastructure Ontario has already taken steps to address the recommendations, including the launch of the building portal to provide client ministries with more information on their building services, and an agreement in principle with the Ministry of Health and Long-Term Care and hospitals to support hospitals with AFP contracts during the operations phase. We will develop an action plan to implement the recommendations made by the Auditor General.

2.0 Background

2.1 Overview of Infrastructure Ontario

In June 2011, under the *Ontario Infrastructure and Lands Corporation Act, 2011* (Act), the Ontario Realty Corporation was merged with Infrastructure Ontario—a Crown agency then predominantly responsible for managing Alternative Financing and Procurement (AFP) arrangements (discussed in **Section 2.4**) and municipal lending. The entities merged to form the Ontario Infrastructure and Lands Corporation (Infrastructure Ontario). Under the Act, Infrastructure Ontario is now also responsible for managing the Province's general real estate portfolio (government properties).

The government properties that Infrastructure Ontario manages are used by all 30 ministries and their related agencies. **Figure 1** provides information on the buildings as of March 31, 2017.

Thirty-five percent of the rentable square feet within government properties is office space; the rest is special purpose space that includes OPP detachments, detention centres, labs, storage space and courthouses.

As seen in **Figure 2**, about 77% of the rentable square feet of government properties is owned by the government; the remaining 23% is leased from third parties.

The average age of all owned buildings was 49 years, based on an average rentable square foot basis, as of March 31, 2017. **Figure 3** provides a more detailed breakdown of the age of government-owned buildings.

As seen in **Figure 4**, government properties overseen by Infrastructure Ontario represent about 29% or $5.5 billion of the total net book value of provincial government land and buildings. Infrastructure Ontario manages 130,000 acres of land with a book value of $0.8 billion. Most of this land consists of hydro corridors; some vacant land that Infrastructure Ontario is considering for disposal;

Figure 1: Government Properties by Intended Use as of March 31, 2017

Source of data: Infrastructure Ontario

	Occupied		Vacant		Total	
Building Category	# of Buildings	Area (RSF million)[1]	# of Buildings	Area (RSF million)[1]	# of Buildings	Area (RSF million)[1]
Core[2]	3,400	35.86	179	0.84	3,579	36.70
Transition[3]	215	1.38	165	0.80	380	2.18
Hold[4]	27	0.10	32	2.55	59	2.65
Disposition[5]	351	1.15	318	0.23	669	1.38
Demolition[6]	33	0.47	118	0.63	151	1.10
Total	**4,026**	**38.96**	**812**	**5.05**	**4,838**	**44.01**

1. Area is measured in millions of "rentable square feet" (RSF). RSF includes both the space available for office activities and also common areas, such as washrooms, lobbies and electrical rooms. The term "usable square feet" is only the space available for office activities. Areas such as elevator shafts and stairwells are not included in either definition.
2. Buildings that will be used for the long term to fulfill current or future government needs.
3. Buildings that will be reviewed to determine whether they continue to be core or will be disposed of or demolished.
4. Buildings that will no longer be used for program delivery, once the lease expires, but cannot be demolished or disposed of until environmental, heritage or other circumstances have been addressed.
5. Buildings that have been recommended for sale or transfer; occupants are moved either to existing government-owned properties or to a third-party lease.
6. Buildings that have been recommended for demolition; occupants are moved either to existing government-owned properties or to a third-party lease.

Figure 2: Government Properties by Ownership Type as of March 31, 2017

Source of data: Infrastructure Ontario

In Rentable Square Feet	Office Space (million)	Special Purpose Space (million)	Overall Government Properties (million)	%
Owned	8.0	22.3	30.3	68
Leased	7.5	2.5	10.0	23
Managed by Alternative Financing and Procurement Agreement*	–	3.8*	3.8	9
Total	**15.5**	**28.6**	**44.1**	**100**

* Owned by the provincial government and managed by private-sector companies.

Figure 3: Ages and Sizes/Areas of Government-Owned Buildings as of March 31, 2017[1]

Source of data: Infrastructure Ontario

Age (Years)	Number	% of Total Number	Size/Area[2]	% of Total Size/Area
0–10	130	3	4,557,799	13
11–20	103	3	2,508,579	7
21–30	317	8	4,079,034	12
31–40	447	11	3,813,950	11
41–50	1,137	28	8,365,206	24
51–60	1,035	26	4,632,716	13
61–70	274	7	1,610,746	5
Over 70	604	15	5,244,028	15
Total	**4,047**	**100**	**34,812,058**	**100[3]**

1. Infrastructure Ontario does not have the construction year for 791 buildings, with a combined size/area of 9,201,006 rentable square feet.
2. Size/area is measured in rentable square feet.
3. Total percentage has been rounded to 100.

Figure 4: Book Value of Buildings Managed by Infrastructure Ontario as of March 31, 2017
Source of data: Public Accounts of Ontario 2016/17

	Land and Buildings Overseen By Infrastructure Ontario ($ billion)	Total Provincial Ministries and Agencies' Land and Buildings ($ billion)[1]
Cost (A)	7.8	22.4
Amortization[2] (B)	2.3	3.4
Net Book Value (A – B)	**5.5**	**19.0**

1. Amounts exclude properties in the broader public sector (i.e., hospitals and schools). Properties not overseen by Infrastructure Ontario are directly managed by agencies that have the authority to manage their own property. See **Appendix 1** for a list.
2. Amortization is the process of expensing the cost of an asset, such as a building, over its projected life.

and other land that the government has set aside for economic development purposes, such as to develop and later sell.

While most land and buildings owned by ministries and their agencies are overseen by Infrastructure Ontario, 58 agencies have title and authority to manage their own property, such as the land and buildings owned by Metrolinx and the Royal Ontario Museum. See **Appendix 1** for a list of the 34 agencies that manage their properties. Twenty-four other agencies choose to have Infrastructure Ontario manage their properties for them.

2.1.1 Governance

Infrastructure Ontario is overseen by its board of directors, which in turn is accountable to the Minister of Infrastructure for its responsibilities to manage government properties.

Infrastructure Ontario's responsibilities are set out in a Memorandum of Understanding and in an Enterprise Realty Service Agreement (Agreement) between itself and the Ministry of Infrastructure (Ministry). The Memorandum also requires Infrastructure Ontario to comply with directives from Treasury Board and follow the Ministry's policies and standards; for example, the Accommodation Standard that sets out targets for efficient use of space and the Ministry's Realty Policy that requires consideration of current available space within government properties prior to making decisions on accommodation. The Agreement provides greater detail on Infrastructure Ontario's responsibilities, including the requirement for it to maintain government property through the development of an annual capital budget and requirements on what it must report annually to the Ministry, including the condition of government property.

2.1.2 Funding

For real estate services, Infrastructure Ontario is funded primarily through the payments it receives from client ministries and agencies for managing their properties. It also receives funding from the Ministry of Infrastructure (Ministry).

As seen in **Figure 5**, for government-owned buildings, client ministries pay Infrastructure Ontario a "charge for accommodation," which is intended to cover the costs to maintain the properties. This charge consists of four components:

- base rent;
- operating and maintenance costs;
- payments in lieu of property taxes; and
- facility management fee—calculated using fixed rates per rentable square foot based on the location and use of the government-owned property. This fee is lower than the 15% of government-owned properties' operating and maintenance expense that the Enterprise Realty Service Agreement between

Figure 5: Charge for Accommodation

Source of data: Infrastructure Ontario

Type of Charge	Description of Charge
Base rent	Intended to fund required capital projects.[1]
Operating and maintenance[2]	Services include landscaping, janitorial services, utilities, snow clearing, repairs and maintenance.
Payments in lieu of property taxes	Property taxes.
Facility management fee[3]	To cover the cost of managing government properties.

1. Also includes certain relocation costs to make more efficient use of government buildings.
2. Funding is collected by Infrastructure Ontario and paid to its external property and land manager, which pays the service providers.
3. These amounts are set rates based on rentable square feet and are intended to fund the management fee of 15% of the operating and maintenance expenses.

Figure 6: Charges for Accommodation Billed by Infrastructure Ontario to Client Ministries and Agencies Occupying Government-Owned Properties, 2011/12–2016/17 ($ million)

Source of data: Infrastructure Ontario

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Avg. % Change Each Year
Base rent[1,2]	101.73	101.70	102.94	104.10	102.70	101.88	0.03
Operating and maintenance of occupied buildings	141.68	155.69	155.98	172.51	174.18	176.58	4.60
Infrastructure Ontario management fee[1]	12.35	12.30	12.33	12.29	12.06	12.22	(0.21)
Payments in lieu of taxes	41.80	43.12	46.19	48.10	50.05	47.69	2.75
Total Charge for Accommodation	**297.56**	**312.81**	**317.44**	**337.00**	**338.99**	**338.37**	

1. Based on rentable square feet.
2. Small variances can occur in base rent revenue and Infrastructure Ontario's management fee, resulting from activities that include government employees moving into or out of privately owned buildings; base rents being increased after a government property is renovated; or discontinuance of use of an owned property when it is no longer needed.

Infrastructure Ontario and the Ministry allows Infrastructure Ontario to earn.

Figure 6 shows the charge for accommodation that Infrastructure Ontario billed client ministries and agencies over the past six years.

As seen in **Figure 7**, a portion of Infrastructure Ontario's revenue is also provided by the Ministry to help with capital repairs and the costs of properties leased to the private sector, as well as the costs of operating vacant properties. Infrastructure Ontario also receives strategic advisory fees and project management fees to provide strategic direction for government properties and oversee capital projects, respectively.

2.1.3 Staffing

Infrastructure Ontario's total operating costs ranged from $46.7 million in 2011/12 to $56 million in 2016/17. Infrastructure Ontario has procured the services of an external property and land manager, as well as two project management companies to provide real estate services (discussed further in **Section 2.2.1**).

As seen in **Appendix 2**, for the 2016/17 fiscal year, Infrastructure Ontario had 179 direct staff in the real estate division. An additional 104 staff, including legal, finance, information technology, human resources and procurement specialists, further supported real estate operations. As seen in **Figure 8**, total Infrastructure Ontario staffing costs

Figure 7: Funding to Infrastructure Ontario from Ministry of Infrastructure, 2011/12–2016/17 ($ million)

Source of data: Infrastructure Ontario

Type of Funding	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Capital repairs	79.03	64.18	67.24	72.10	84.10	68.31
Strategic advisory fee and project management fee[1]	18.70	18.70	18.70	18.70	18.70	18.70
Vacant properties' funding	14.1	16.36	12.85	13.98	13.96	14.37
Properties leased to private sector[2]	7.04	7.04	7.04	7.04	7.04	7.04
Total	**118.88**	**106.28**	**105.83**	**111.82**	**123.80**	**108.42**

1. Based on the sum of strategic advisory fees, which are 0.2% of the net book value of government property, and the project management fee, which is between 2% and 5% of the value of capital projects managed by Infrastructure Ontario. This is capped at $18.7 million annually.
2. The funding is to offset expenses incurred because the revenue from these leases is returned to the Ontario Government.

Figure 8: Infrastructure Ontario's Operating Costs for Managing Government Properties from 2011/12 to 2016/17 ($ million)

Source of data: Infrastructure Ontario

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Salaries and benefits	28.12	29.44	30.33	32.75	32.90	37.48
General and administration	9.35	11.75	12.35	11.52	8.03	8.88
External property and land manager fee	9.27	9.11	9.66	9.91	9.78	9.68
Total	**46.74**	**50.30**	**52.34**	**54.18**	**50.71**	**56.04**

for its real estate services ranged from $28.1 million in 2011/12 to $37.5 million in 2016/17.

The staff are mainly responsible for oversight, although Infrastructure Ontario also performs some functions directly, such as providing realty advisory services, property sales transactions, direct project delivery—for example, new building construction—and identifying government-owned properties that might be over-valued for the assessment of property taxes.

2.2 Capital Projects

Capital projects consist of new construction, major renovations and rehabilitation of buildings. Capital projects are funded in two ways: ministries either request capital projects to be completed using their own funding, or Infrastructure Ontario identifies projects to be completed based on an assessment of need, using capital funding from base rent and the Ministry.

Projects are selected based on the greatest need for repairs in government properties. Infrastructure Ontario allocates funding to external project managers at the beginning of the fiscal year, first to ongoing projects started in past years and then for new projects.

As seen in **Figure 9**, Infrastructure Ontario has outsourced the management of capital projects between $100,000 and $10 million to external project managers, but will manage some projects of less than $10 million itself at its discretion. It directly manages those that are between $10 million and $100 million. Projects over $100 million are handled under the Alternative Financing and Procurement model, which was previously reviewed by our Office in our *2014 Annual Report*.

As seen in **Figure 10**, about $805 million in projects individually less than $10 million initiated by Infrastructure Ontario were delivered by its external project managers from 2011/12 to 2016/17.

Figure 9: Capital Procurement by External Project Manager

Source of data: Infrastructure Ontario

Capital Value	Project Manager	2017 # of Projects	2017 Construction Costs ($ million)	Contract Expiry
From $100,000–$10 million	Outsourced by Infrastructure Ontario to project management company[1]	1,574	277	Project Managers A and B: 2020 (with five single-year extensions possible beyond 2020)
Less than $100 million[2]	Infrastructure Ontario (traditional procurement)	24	48	n/a
Over $100 million[3]	Infrastructure Ontario Alternative Financing and Procurements	6	1,194	30 years after AFP maintenance agreement

Note: n/a–Not applicable because Infrastructure Ontario is managing these projects.

1. For the majority of the period under audit Project Managers A, B and C were the project management companies. In 2014, Project Manager C lost the bid to continue delivering the project management services.
2. Infrastructure Ontario can take on any project at its discretion. 33% of projects were under $1 million; 21% were between $1 million and $10 million; and 46% were over $10 million, with one–related to the Pan Am Games–as high as $128 million.
3. A value-for-money audit of projects procured using the Alternative Financing and Procurement arrangement was done by our Office in 2014. In 2015, the threshold of AFP projects changed from $50 million to $100 million. Projects with capital value between $50 million and $100 million are delivered through traditional procurement unless an exception is made and approved by the government.

Figure 10: Total Costs of Projects Less Than $10 Million Initiated by Infrastructure Ontario between 2011/12 and 2016/17 ($ 000)

Source of data: Infrastructure Ontario

Project Manager	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
A	33,741	55,778	51,710	35,775	92,565	96,505	**366,074**
B	19,971	19,774	19,286	20,121	35,888	53,761	**168,801**
C*	54,129	59,007	71,259	65,158	15,797	4,491	**269,841**
Total	**107,841**	**134,559**	**142,255**	**121,054**	**144,250**	**154,757**	**804,716**

* Project Manager C's projects were initiated prior to 2014/15, when it ceased being a project manager.

For outsourced projects, the external project manager is responsible for the procurement and management of required contractors. Infrastructure Ontario pays its external project managers based on a percentage of the actual cost of the project, some of which may be required to be returned if performance measures set out in their contracts (see **Figure 11**) are not met.

2.2.1 Project, Property and Land Managers

External Property and Land Manager

Infrastructure Ontario (then Ontario Realty Corporation) entered into a Master Service Agreement in 2009 with a real estate services company to be the external property and land manager to provide all operating and maintenance work for client ministries and agencies for leased and owned properties. The Master Service Agreement is scheduled to end March 31, 2020. Operating services include snow removal, cleaning, security and landscaping. Maintenance services include repairs to equipment,

Figure 11: Performance Measures of Project Managers A and B in 2015 and 2016

Source of data: Infrastructure Ontario

Performance Measure[1]	Purpose	Dollars Awarded in 2015/2016[2]	% Awarded
Spend 95% to 100% of allocated budget from the Ministry of Infrastructure	To measure the project managers' ability to spend all the Ministry of Infrastructure's program funding.	Project Manager A $63,165/$63,165	100
		Project Manager B $21,677/$29,436	74
Spend 95% to 100% of amount project managers forecast in December	To measure the project managers' ability to spend by March what was forecast in December.	Project Manager A $31,583/$31,583	100
		Project Manager B $14,718/$14,718	100
85% of projects within 5% of post-tender estimate	To measure project managers' ability to keep final costs within 5% of the post-tender estimate.	Project Manager A $63,165/$63,165	100
		Project Manager B $29,436/$29,436	100
90% of projects reach project completion on time (within 5 days)	To measure the project managers' ability to complete projects on or before the planned date.	Project Manager A $22,599/$22,599	100
		Project Manager B $4,205/$10,513	40
Project close-out on time ≥ 75%	To measure the project managers on whether they complete all responsibilities and deliverables within 120 days after substantial completion.	Project Manager A $45,118/$45,118	100
		Project Manager B $0/$21,026	0
Timely communications of project cost or schedule deviations ≥ 90%	To measure the project managers on whether they communicate project cost/schedule deviations in a timely manner.	Project Manager A $56,397/$56,397	100
		Project Manager B $0/$26,282	0
Non-conformance action plan completion and submission to Infrastructure Ontario on time (100%)	To measure the project managers on whether they provide Infrastructure Ontario with a plan to rectify non-conformance within 10 business days.	Project Manager A $56,397/$56,397	100
		Project Manager B $0/$26,282	0
Client satisfaction ≥ 85%.	To measure the project managers' ability to receive a client satisfaction score above 80% for projects completed.	Project Manager A $28,199/$28,199	100
		Project Manager B $13,141/$13,141	100
Data quality – completeness and accuracy is ≥ 90%.	To measure whether the project managers provide complete and accurate capital project data.	Project Manager A $56,397/$56,397	100
		Project Manager B $26,282/$26,282	100
Form for pre-tender estimate changes provided to management on time is ≥ 90%.	To measure the project managers on whether they complete and submit changes to their pre-tender estimate in a timely manner.	Project Manager A $28,199/$28,199	100
		Project Manager B $13,141/$13,141	100

1. For all above required rates of compliance, external project managers may request Infrastructure Ontario to exempt a project from being included in this measure.
2. External project managers that meet performance measures receive all performance pay. If they do not meet a performance measure, external project managers either receive no performance pay–if they miss it by a large margin–or receive some performance pay–if they miss it by a small margin.

such as security systems and heating, ventilation and air conditioning, and buildings.

The majority of the annual cost of the Master Service Agreement is based on an annual budget that the external property and land manager develops and that Infrastructure Ontario reviews and approves. The external property and land manager receives management fees based on the number of properties managed and the types of services that are to be provided. The external property and land manager was paid $9.7 million in 2016/17. Within the last five years, its fees ranged from a low of $9.1 million in 2012/13 to a high of $9.9 million in 2014/15 (see **Figure 8**). About one-quarter of the fees paid to the external property and land manager are based on meeting performance measures, such as whether services are on time and on budget and the quality of services.

It procures vendors to provide operating and maintenance services according to Infrastructure Ontario's procurement policy requirements, and renews these contracts every few years. See **Figure 12** for six years of cost information.

The external property and land manager is also responsible for inspecting all buildings annually for maintenance and capital needs with more detailed inspections occurring every two years for core and transition buildings. See **Figure 1** for more on core and transition buildings. Information obtained from these inspections is entered into Infrastructure Ontario's asset management system. The external property and land manager runs an annual report on the maintenance and capital construction repair needs for the next 10 years that prioritizes spending; for example, the highest priority is given to projects that impact health and safety. Infrastructure Ontario uses this report to select the projects that it plans to fund and sends a list of these projects to the external property and land manager, which, in turn, is responsible for determining a plan for each project that includes the cost estimate, scope, and timeline in consultation with the external project managers.

External Project Managers

In 2014, Infrastructure Ontario contracted with two external project managers (Project Manager A and Project Manager B) to manage an estimated $900 million of capital projects, each estimated to cost between $100,000 and $10 million. Prior to 2014, the company that provided external property and land manager services was also an external

Figure 12: Government-Owned Properties' Operating and Maintenance Costs, 2011/12–2016/17 ($ 000)
Source of data: Infrastructure Ontario

Operating and Maintenance Expenses	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Avg. % Change Each Year
Cleaning	25,617	25,216	25,690	23,921	26,328	26,206	0.61
Repairs and maintenance[1]	60,553	60,285	62,253	65,746	70,695	68,008	2.43
Security	5,728	6,067	7,342	8,751	9,129	9,169	10.18
Grounds and roads	9,320	9,029	10,607	10,226	11,952	12,025	5.65
Electricity	40,694	42,618	47,451	46,486	49,264	54,538	6.14
Other utilities	26,254	27,394	27,718	31,144	24,712	25,566	0.14
General and administration	18,364	16,170	17,636	17,369	19,928	20,173	2.31
Total[2]	**186,530**	**186,779**	**198,697**	**203,643**	**212,008**	**215,685**	

1. This includes the cost of building repairs up to $10,000, which Infrastructure Ontario recovers from tenants. The cost of larger capital repairs is included in capital projects.
2. These amounts are higher than the operating and maintenance charged to ministries and agencies because they include vacant property costs and costs of leases to the private sector.

project manager; in 2014, the number of external project managers was reduced from three to two.

The project managers procure architects and general contractors from Infrastructure Ontario's vendor-of-record listing. Every few years, Infrastructure Ontario conducts an open procurement to obtain architects, interior designers, general contractors and engineers to populate its vendor-of-record listing. The last such process was conducted in June 2013, with contracts lasting three years from then. In 2016, Infrastructure Ontario invoked a one-year extension to June 2017, and at the time of our audit it was completing a new vendor-of-record process. Infrastructure Ontario's external project managers are required to use these vendors.

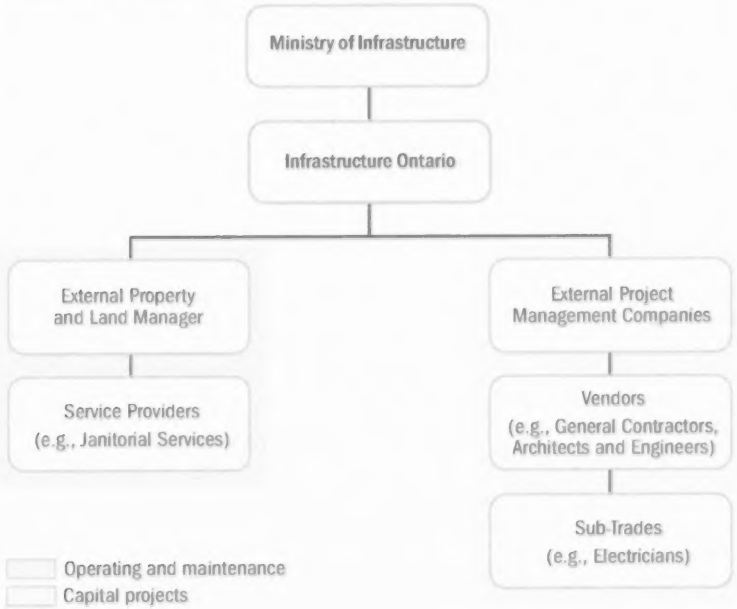
The vendors of record do not include electricians, bricklayers, plumbers and other tradespeople, who are procured directly by the general contractor at its discretion. **Figure 13** charts the responsibilities for real estate services for government properties.

2.2.2 Process for Estimating Construction Projects' Cost

Infrastructure Ontario's cost estimate process has over a dozen stages over which costs for capital projects between $100,000 and $10 million are revised and refined. Five key stages are referred to throughout this report to trace project cost estimate changes, with the final step being the actual cost at project completion, which is when a building is ready to be used for its intended purpose, but some work may still need to be done. Infrastructure Ontario's project planning estimates are as follows:

1) **Initial cost estimate:** Infrastructure Ontario creates the first estimate of costs for all projects using its asset management system. The system develops the initial estimate using industry standards for individual components (such as a window or door) and adding a mark-up for costs, such as for contingencies and design costs consistent with industry standards, to arrive at the initial estimated total project cost. This estimate, which is

Figure 13: Organizational Chart for Real Estate Services for Government Properties
Prepared by the Office of the Auditor General of Ontario



updated annually, is then used to develop Infrastructure Ontario's rolling 10-year plan, which is used to prioritize projects within Infrastructure Ontario.

2) **Business plan estimate:** For Infrastructure Ontario–initiated capital projects the business plan estimate is created by the external property and land manager. For such projects, the external property and land manager prepares an estimate of scope, cost and timelines. If a construction or repair project is requested by a client ministry or agency, and the client ministry or agency provides funding for the project, then the client ministry/agency provides the estimate of scope, budget and timelines.
3) **Pre-tender estimate:** The external project managers then revise the business plan estimate of scope, cost and timelines after Infrastructure Ontario has assigned them the project. Project managers might revise this several times prior to arriving at the estimate that will be used as the basis for procuring the general contractor and vendors.
4) **Post-tender estimate:** The external project manager revises the estimated cost after awarding contracts to vendors. External project managers procure contractors mainly through either a public Request for Proposals or through Biddingo—an online bidding platform service used by the provincial and municipal governments and private companies, which automatically selects a set number of vendors through a vendor rotation process. The vendors used in this pool are selected by Infrastructure Ontario after it reviews their qualifications.
5) **Actual cost:** This is determined after project completion.

If a repair to a building is required due to an emergency, a more expedited process is followed, depending on the degree of urgency, to ensure that the emergency is addressed. In fiscal 2016/17, Infrastructure Ontario spent $7.8 million on emergency repairs and about $59 million in the past three years.

2.2.3 Deferred Capital Maintenance

Ideally, all required repair and maintenance work should be performed when the need is identified. In some cases, repair and maintenance work is deferred due to a lack of funding.

The Facilities Conditions Index (Index) is an industry standard used to measure the relative condition of a building. It is calculated by dividing the estimated cost of repair and maintenance work that is past due the cost to replace the building. According to the industry standard, buildings with an Index of 0% to 5% are considered to be in excellent condition, 5% to 10% are considered in good condition, and over 10%, in poor condition.

Infrastructure Ontario calculates the Index differently than the industry because it uses the Ontario Government's standard. This standard divides the cost of repairs required in the current and the next two years by the cost to replace the building. The Enterprise Realty Services Agreement includes a performance target for Infrastructure Ontario to ensure that based on the Ontario Government standard core government-owned buildings should be at an index of 0% to 10% (good condition) and at an index 11% to 20% (fair condition) for transition buildings. According to the government standard, a building with an index over 30% would be considered to be in poor condition.

2.3 Use of Government Properties

Standard for Office Size

The Ministry introduced the Office Accommodation Standard (Standard) in 2012. Infrastructure Ontario is required by the Enterprise Realty Services Agreement to work with client ministries in achieving this standard. The Standard sets the maximum rate of usage of office space in order to minimize the footprint of government properties. According to the Standard, the size of an office should not exceed 180 rentable square feet, on average, for each person occupying it. For example, an office that has 10 people should be no more than 1,800 square feet.

Disposal of Properties

Infrastructure Ontario disposes of properties that client ministries, agencies and Infrastructure Ontario have determined are no longer required for government use and are surplus. The disposal process can take many years and result in a property being sold on the open market, demolished or offered to a municipality or not-for-profit organization at a lower-than-market rate. If a municipality or not-for-profit purchases the property at a lower-than-market value, it is required to sign an agreement that allows Infrastructure Ontario the option of taking back the property or any profits realized upon the sale of the property within 20 years.

As seen in **Figure 14**, over the last five fiscal years, Infrastructure Ontario has sold 144 properties that were no longer needed by ministries and agencies for about $229 million.

From fiscal 2011/12 to 2016/17, across the province 261 buildings with 82 unique addresses and 1.3 million rentable square feet have been demolished to eliminate the costs of maintaining them. The land associated with these buildings was then offered to other government entities or offered for sale.

Accessibility of Government Properties

The *Accessibility for Ontarians Disability Act, 2005* (Act) took effect with the purpose of developing, implementing and enforcing accessibility standards to "achieve accessibility for Ontarians with disabilities" on or before January 1, 2025.

Also, the Ontario Building Code was updated in January 2015 with enhanced requirements for accessibility to a new building or an existing building that undergoes an extensive renovation. Neither the Act nor the Building Code requires existing buildings to be retrofitted to meet accessibility requirements.

Figure 14: Total Properties Sold by Infrastructure Ontario from 2012/13 to 2016/17

Source of data: Infrastructure Ontario

Fiscal Year	# of Properties Sold	Total Sales Value ($ million)
2012/13	41	131.24
2013/14	32	47.01
2014/15	25	12.54
2015/16	21	23.75
2016/17	25	14.86
Total	**144**	**229.40**

2.4 Maintaining Assets Obtained through Alternative Financing and Procurement

While most government properties are acquired through traditional build, lease or purchase, about 9% of government properties, based on rentable square feet as of March 31, 2017, were procured through the Alternative Financing and Procurement (AFP) model.

The AFP model was developed by Infrastructure Ontario about 10 years ago. Under the model, project sponsors in the public sector—provincial ministries, agencies or broader public-sector entities, such as hospitals and colleges—establish the scope and purpose of the project. Construction of the project is financed and carried out by the private sector.

In some cases, the private-sector company that constructed the asset is also responsible for maintaining the asset over a 30-year contract. One of the primary goals of this type of AFP contract is that the private-sector company maintains the property to help the handover of the property in a state of good repair at the end of the contract.

For hospitals that are procured through the AFP model and maintained through the AFP agreement, each hospital is responsible for managing its own maintenance contract with the private-sector company. Infrastructure Ontario is not directly involved in managing hospitals' maintenance contracts but often offers guidance to the hospitals when requested.

3.0 Audit Objective and Scope

The objective of our audit is to assess whether the real estate division of Ontario Infrastructure and Lands Corporation (Infrastructure Ontario) has effective systems and procedures in place to ensure that:

- real estate assets are acquired, managed, and disposed of with due regard for economy and the public interest;
- the accommodation requirements of government ministries and agencies are met in a cost-effective and timely manner;
- its Alternative Financing and Procurement arrangements support cost-effective management of maintenance in buildings in the government and the broader public sector; and
- its performance is sufficiently and appropriately measured and reported on to allow for a meaningful assessment of its activities.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at Infrastructure Ontario, and the Ministry of Infrastructure (Ministry) reviewed and agreed with the suitability of our audit objective and related criteria, as listed in **Appendix 3**.

Our audit was conducted primarily at the head office of Infrastructure Ontario in Toronto. We also visited the offices of Infrastructure Ontario's external property and land manager and external project managers in Toronto and Mississauga. We conducted our fieldwork between January 9, 2017, and July 30, 2017. We obtained written representation from Infrastructure Ontario and the Ministry that, effective November 17, 2017, they have provided us with all the information they were aware of that could significantly affect the findings or the conclusion of this report.

Our audit focused on Infrastructure Ontario's management of the provincial government's general real estate portfolio, which consists of buildings and land owned by Ontario Government ministries and many of its agencies. The portfolio is referred to in this report as government properties. Our work focused on capital projects and the maintenance, use and sales of government properties during the period April 1, 2011, to March 31, 2017. We reviewed relevant data available at Infrastructure Ontario and also data from other organizations, such as the online bidding service Biddingo, and external property and land and project management companies. We did not focus on the new construction projects that Infrastructure Ontario was responsible for managing itself since some of these projects related to the Pan Am/Parapan Am Games, which we reviewed in our *Special Report: 2015 Pan Am/Parapan Am Games*.

We engaged an engineering firm to assess the reasonableness of cost estimates and escalations in capital projects.

We also reviewed the provision of maintenance services for government properties and hospitals constructed through Infrastructure Ontario's Alternative Financing and Procurement (AFP) framework. In total, we spoke to seven hospitals, which were in southern and eastern Ontario, and visited one, that all had maintenance work delivered under an AFP arrangement for at least two years at the time of our audit.

We met with staff from the City of Toronto real estate services to obtain an understanding of how they manage their properties. We also interviewed staff with the Government of Canada, Alberta and British Columbia to discuss how they manage real estate properties in their respective jurisdictions.

In addition to engaging stakeholder groups—such as the AODA (*Accessibility for Ontarians with Disabilities Act*) Alliance—we visited the Ministry of the Attorney General, Ontario Provincial Police (OPP), Ministry of Transportation, Ministry of Government and Consumer Services, Ministry of Community Safety and Correctional Services, Ministry

of Natural Resources and Forestry, Ministry of the Environment and Climate Change, and Ministry of Health and Long-Term Care to obtain their feedback on the services they receive from Infrastructure Ontario. We also contacted the Ministry of Health and Long-Term Care to provide additional information on hospital funding as it pertained to the maintenance work related to AFP contracts.

We reviewed the audits completed by the Ontario Internal Audit Division in this area in planning our work.

4.0 Detailed Audit Observations: Infrastructure Ontario

4.1 Limited Competition for the Procurement of Project Management Services

4.1.1 RFP Divides Province into Only Two Zones

In 2014, Infrastructure Ontario issued a Request for Proposals (RFP) for management services for capital projects for government properties worth $900 million over five years. The RFP split the project management services across the province into only two zones: a southwest region, east region and central region in one, and the other consisting of a northern region and Toronto. The RFP stated that one project management company would be assigned to each zone, which limited the bidders to larger real estate project management companies that had sufficient resources to cover the required volume of projects.

The result was that the competition attracted only three companies to bid: Two contracts for an estimated 7,500 projects, each worth between $100,000 and $10 million were awarded to two (Project Manager A and Project Manager B) of the three companies that had bid. Both of these companies held contracts prior to 2014 for project management services with Infrastructure Ontario. The third company that had bid already had work with Infrastructure Ontario and continued in its ongoing role of external property and land manager.

This RFP was most suited for bids from larger project management companies that could manage a large amount of work across many areas of the province.

Prior to setting the requirements for the 2014 RFP, Infrastructure Ontario had spent $108,000 on a consultant to scan the industry on the best approaches for outsourcing project management services and assess market interest. The consultant's report noted that other options might have resulted in more bids. For example, the report noted that many smaller companies would have welcomed an opportunity to bid, but expressed concerns that they were not large enough to commit to the volume of work required. Despite this, Infrastructure Ontario did not consider restructuring the RFP to attract more bidders.

We noted that the management fees that the external project managers included in their 2014 bids were in most cases higher than the fees they had earned in the last contract. For example, Project Manager A's 2008 rate for projects between $500,000 and $1 million was 6.75%, and for projects $1 million to $5 million was 4.75%. Under the 2014 contract this increased to 9.5% for projects $250,000 to $5 million. This increase in management fees is reflected in **Figure 15**.

4.1.2 External Project Manager Awarded Contract despite Low Performance Scores

Infrastructure Ontario awarded the 2014 contract for one of the zones to Project Manager B, despite its poor past performance on its previous contract between 2011 and 2014 as measured by Infrastructure Ontario's own performance measures. Performance deficiencies prior to winning the second contract included projects under its management being completed late, over budget and

Figure 15: Total Management Fees, Including Performance Pay, for Each Project Manager, 2011/12–2016/17 ($)
Source of data: Infrastructure Ontario

Project Manager	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17[1]	Total
A	5,517,302	6,154,222	5,456,511	4,461,799	6,548,754	10,361,960	**38,500,548**
B	1,480,756	1,355,348	1,682,280	2,237,013	3,548,412	5,302,837	**15,606,646**
C	3,167,321	4,044,977	5,479,357	4,301,412	1,051,381	230,460	**18,274,908**
Total	**10,165,379**	**11,554,547**	**12,618,148**	**11,000,224**	**11,148,547**	**15,895,257**	**72,382,102**

1. Performance pay will be calculated in late fall 2017.
2. Reasons for the increase in management fees between 2015/16 and 2016/17 included the increase in fee rates under the new contract, with a larger portion of new fee rates applicable in 2016/17 compared to 2015/16 and an increase in project volumes.

with concerns regarding the quality of work done. For example:

- From 2011/12 to 2013/14, Project Manager B received poor scores on the customer satisfaction survey Infrastructure Ontario completed. Client ministries surveyed after projects were completed gave it scores ranging between 25% and 69% in these years: the required score to pass the performance measure was 80%.
- The key performance measure used to evaluate whether external project managers were on budget required that for a certain portion of all projects completed during the year, the actual project costs were within a certain percentage of the pre-tender estimate. Project Manager B failed this measure, with a declining score between 2012/13 and 2014/15:
  - 2012/13—69% of projects were within 20% of the pre-tender estimate (75% was the target);
  - 2013/14—66% of projects were within 20% of the pre-tender estimate (75% was the target); and
  - 2014/15—50% of projects were within 20% of the pre-tender estimate (65% was the target).

This performance measure was eliminated after 2014/15.

- The key performance measure used to evaluate whether external project managers were on time for completing projects was that project completion was within five days of planned completion for 90% of projects. Project Manager B failed this measure from 2012/13 to 2015/16 with scores ranging from 74% in 2012/13 to 88% in 2013/14. This measure is further discussed in **Section 4.3.5**.

Since then, Project Manager B has continued to perform poorly on the new contract. It has not met five of 10 performance measures since it was awarded the contract in 2014. These included measures for completing contracts on time and on budget and a lack of timely communication of "deviations," such as not complying with contractual requirements for design or construction materials or submitting an action plan to rectify such non-compliance.

4.1.3 Past Performance Not Part of Assessment of Bidders

Infrastructure Ontario did not consider past performance when it assessed the three bids in response to the 2014 RFP. It assigned scores to the bidders for each of the two zones. The scoring was based on a weighted scale as follows:

- 60% for qualifications and experience of team bidding and key personnel to be involved in the contract going forward;
- 5% for financial soundness;
- 5% for case demonstration; and
- 30% for price.

The three bidders scored as follows:

- Project Manager A—91% in both zones;
- Project Manager B—78% in both zones; and
- Project Manager C—74% in one zone and 76% in the other zone.

Despite Project Manager A scoring significantly better than Project Manager B in both zones, Project Manager B was awarded the contract for one of the two zones because Infrastructure Ontario wanted each zone to have a different project manager to guard against one company performing poorly and leaving it no alternative service delivery options.

Furthermore, the penalties that could be levied for poor performance, such as projects not on time, on budget or of poor quality, in Project Manager B's new contract were lower than in Project Manager A's new contract. Specifically, if Project Manager B failed to meet all performance measures it would lose a maximum of 25% of its annual management fee, whereas Project Manager A would lose 45% of its annual management fee. The project management companies' penalty rates were different because the RFP allowed each company to choose its own rate. The penalties were structured this way, despite the fact that Project Manager A was a better performer on the previous contract with Infrastructure Ontario. Project Manager A had failed only one of Infrastructure Ontario's performance measures over the prior four years.

In negotiating the contract with Project Manager B, Infrastructure Ontario did not attempt to negotiate to increase the amount of its penalty to bring it more in line with Project Manager A.

Infrastructure Ontario informed us that in its view it would have been inappropriate to further increase the portion of pay that could be withheld as a result of poor performance, since this was evaluated as part of the RFP and alteration of the amount prior to execution of the contract would likely have attracted legal liability.

RECOMMENDATION 1

We recommend that Infrastructure Ontario review and adjust accordingly its process for procuring project management services to:

- formally prepare a new business case on whether to enable more project management companies in the future to bid on such services;
- include standard penalties for all contract managers on future RFPs; and
- incorporate past performance in the evaluation of the bidders.

RESPONSE FROM INFRASTRUCTURE ONTARIO

In advance of the next project management services procurement, and consistent with our current practice, Infrastructure Ontario will prepare a business case that will consider approaches to ensure competitiveness in an open, fair and transparent procurement process.

Infrastructure Ontario will consider standardizing the portion of the management fee that is earned only if performance measures are met in future contracts, while maintaining competition.

As part of our due diligence, Infrastructure Ontario will also consider a past performance category in the evaluation criteria of future procurements.

4.2 Better Oversight Needed of External Project Managers' Procurement Practices

4.2.1 Infrastructure Ontario's Procurement Policies Differ from the Government's

Management Board of Cabinet's (MBC's) Ontario Public Service Procurement Directive requires that all vendors of record within a region be invited to bid for any government procurement over $600,000. Crown agencies, including Infrastructure

Ontario, are exempted from being required to follow this provision of the MBC directives on procurement, even though Infrastructure Ontario's external project managers procure capital project services on behalf of ministries that are subject to the more stringent requirements of the MBC directives. For example, the Ministry of Transportation policies require the Request for Proposals (RFP) for any construction contract over $100,000 to be public, which is even more competitive than inviting bids from a pool of vendors of record.

Prior to 2013/14, Infrastructure Ontario required all vendors of record to be invited by external project managers for projects over $100,000. In 2013/14, Infrastructure Ontario amended its policies to instead require that:

- for projects between $25,000 and $249,999, a minimum of three vendors needed to be invited;
- for projects between $250,000 and $749,999, a minimum of five vendors needed to be invited; and
- for projects over $750,000 or greater, a minimum of eight vendors needed to be invited.

Infrastructure Ontario informed us that it discontinued its requirement to invite all vendors because feedback from vendors indicated that, due to the costs associated with developing a bid, they were less likely to bid on projects with larger numbers of potential bidders because there was too much uncertainty about winning the bids.

It also introduced a policy of allowing external project managers to invite specific vendors from its vendor of record list. This practice is discussed further in **Section 4.2.3**.

Infrastructure Ontario's external project managers use Biddingo—an online bidding platform service that offers automatic vendor rotation—to select vendors to bid on client ministry and agency capital projects. All such vendors must be selected from Infrastructure Ontario's vendors of record for general contractors, architects, interior designers and engineering consultants, with the number of vendors selected set out in Infrastructure Ontario's policies. Biddingo automatically identifies the vendors to be invited through its vendor rotation process.

We could not readily determine how many companies had actually bid on each procurement due to the limited information tracked by Infrastructure Ontario. We therefore obtained data directly from Biddingo's information system and selected a sample of procurements conducted by all three project management companies since the start of 2011/12.

We found about 78% of the procurements in our sample attracted three or more bids while 22% attracted only two bids. All of our sampled procurements consisted of projects with estimated costs of over $600,000.

Infrastructure Ontario revised its vendor-of-record policies in May 2016 to instead require 10 vendors to be automatically invited for all general contractor procurements over $100,000. This change was initiated because Infrastructure Ontario's anecdotal feedback from its external project managers indicated that they were not receiving a sufficient number of bids and needed to invite additional vendors.

4.2.2 Limited Oversight of Procurements Conducted by External Project Managers

Over the last six years ending in 2016/17, Infrastructure Ontario spent over $1 billion on procurements for capital projects. Infrastructure Ontario does not normally obtain key documentation on procurements, such as bids and evaluations of vendor bid submissions, performed by its external project managers. Between 2011/12 and 2016/17, procurement staff at Infrastructure Ontario reviewed only 3% of contracts procured by external project managers from vendors of record. The contracts were chosen based on a staff person's judgment and random selection rather than on consistent risk criteria, partly because Infrastructure Ontario does not have enough information on the procurements to do a risk-based sample selection.

RECOMMENDATION 2

We recommend that Infrastructure Ontario obtain sufficient procurement data from external capital project managers, including all bids, change orders and bid evaluations to:

- establish a risk-based process to review procurements carried out by capital project managers;
- confirm that its procurement policies result in sufficient competition among bidders; and
- confirm that contracts for capital projects are awarded to the most qualified bidders.

Infrastructure Ontario should then adjust its policies accordingly if needed.

RESPONSE FROM INFRASTRUCTURE ONTARIO

The analysis of Infrastructure Ontario's procurement and project information can be enhanced. An updated procurement audit program will be introduced to provide additional insight into bids and bid evaluations for procurements that are determined, through audit program guidelines, to potentially be higher risk. Additionally, Infrastructure Ontario will consistently gather data on change orders to inform future improvements in procurement audit criteria.

At the time of this report, Infrastructure Ontario has implemented the updated vendor-of-record arrangements and is in the process of implementing updates to the vendor performance program for vendor-of-record participants. We will continue to strike a balance between ensuring a sufficient opportunity to bid, ensuring those bidders are qualified, and getting the best price on bids.

Infrastructure Ontario has confirmed that its qualification process is robust and that all bidders in its vendor-of record program are qualified. Contracts are awarded on a competitive basis to qualified bidders that provide the best value.

Policies will be reviewed and updated if Infrastructure Ontario determines it to be an appropriate step to ensure continuous improvement.

4.2.3 Nearly $49 Million of Projects Awarded to Vendors Invited by External Project Managers in Three Years

Since 2013/14, Infrastructure Ontario has allowed external project managers to manually add vendors outside the usual vendor rotation process—that is, vendors on Infrastructure Ontario's vendor of record may be added over and above those selected automatically by the Biddingo service. Infrastructure Ontario began allowing manual adds after the discontinuance of the 2013/14 practice of inviting all applicable vendors for projects over $100,000.

Infrastructure Ontario informed us that this manual adds practice was intended to allow external project managers the opportunity to invite vendors that were uniquely well suited to a particular project. However, we found instances where an external project manager cited that a vendor should be added because it had worked on a similar project, but did not provide evidence that other such work was performed.

During the 2013/14 to 2016/17 fiscal years, vendors were manually invited by external project managers for 321 projects, and nearly half of these projects, totalling $48.6 million, were awarded to these vendors out of a total of $494 million awarded to vendors over this period.

Although Infrastructure Ontario has no formal policies on when a vendor can be manually added, it informed us that it had advised external project managers in 2013 that they must provide Infrastructure Ontario with a reason for manual additions and obtain approval before adding them.

Required Approval for Manual Adds Not Always Provided

In our review of a sample of procurements where vendors were manually added in this four-year period, we found no strong rationale and, in some cases, no rationale at all for inviting vendors outside the usual vendor rotation process. We also found cases where Infrastructure Ontario had not been advised when some vendors were manually added—even though Infrastructure Ontario informed us that its approval is required.

We found that the top 10 most manually added bidders made up over 25% of the manual adds. An external project manager invited a company 10 times, and the company was awarded nine of those contracts. Infrastructure Ontario would not have identified this because it does not review manual adds.

Infrastructure Ontario had not performed any analysis to identify whether potential conflicts of interest existed in the manual bidding process between the project manager staff and the vendor manually added. Infrastructure Ontario informed us that its vendors are expected to declare any conflicts of interest as part of the process of being included in the vendor-of-record pool.

As a result of our raising this issue with Infrastructure Ontario, Infrastructure Ontario plans to increase its internal controls over the manual adds process, including:

- as of November 1, 2017, Biddingo will roll out a new requirement to allow manual additions only if external project managers provide a rationale for the addition and Infrastructure Ontario provides approval; and
- Infrastructure Ontario staff will be receiving from Biddingo a monthly report of all manual additions.

RECOMMENDATION 3

In order to ensure the fair and economical procurement of project contractors, we recommend that Infrastructure Ontario:

- obtain sufficient information on procurements conducted by external project managers, and analyze this information to determine whether there are any trends that suggest non-cost-effective procurement practices; for example, too few vendors bidding or a large portion of projects being awarded to only a few vendors; and
- implement its planned controls over external project managers manually adding vendors to identify any potential conflicts of interest in this process.

RESPONSE FROM INFRASTRUCTURE ONTARIO

Infrastructure Ontario will continue to monitor procurements to ensure the competitiveness and participation of qualified vendors. It will do so through increased sampling, quantitative analytics and ongoing dialogue with vendor-of-record participants and/or their industry associations.

At the time of this report, Infrastructure Ontario has already implemented heightened controls regarding the manual addition of vendor-of-record participants to procurements, and will further monitor manual additions through reports from the electronic tendering platform. Additionally, Infrastructure Ontario will assess other enhancements, such as requiring conflict-of-interest screening when vendors are manually added to bid invitations.

4.3 Ineffective Measures to Hold External Project Managers Accountable for Controlling Costs and Time to Complete Projects

4.3.1 Unreliable Cost Estimates Used for Planning

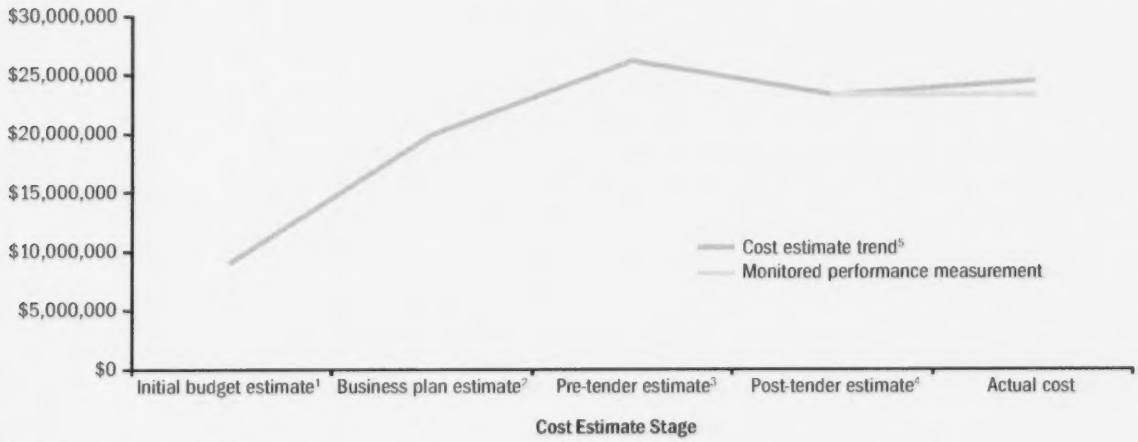
At our request, Infrastructure Ontario performed an analysis of the cost estimates of 70 projects completed between April 1, 2011, and March 31, 2016, valued at $24 million in total. The sample for the analysis consisted of only projects we could track from the initial cost estimate to the final costs for projects. As seen in **Figure 16**, the weighted average cost estimates increased by 168%—from about $9 million to $24 million—between the initial estimate and the final cost. The most significant part of this—a 119% increase—occurred between the initial budget estimate and the business plan estimate.

Infrastructure Ontario informed us that the initial cost estimates derived from its asset management system are incomplete because they are preliminary, and do not factor in the additional costs that might be incurred to address actual site conditions. Based on its experience with the cost-estimation system Infrastructure Ontario was using, the engineering firm that we contracted with also agreed with this assessment.

Infrastructure Ontario uses these initial cost estimates for prioritizing which projects to do for the current year and the next two years based on the estimated cost of the projects and the funding that is available. Since subsequent estimates and the actual cost of the projects tend to be significantly higher than the initial cost estimates, Infrastructure Ontario is not prioritizing projects based on reliable cost estimates and so does not have a sound basis for selecting projects that yield the highest cost-benefit.

Infrastructure Ontario's senior management informed us that the business plan estimate developed by the external property and land manager serves as a second check in deciding whether a project can be continued. However, as seen in **Figure 16**, there is also a significant difference

Figure 16: Capital Project Cost Escalations for Infrastructure Ontario–Initiated Projects
Source of data: Infrastructure Ontario



1. This is an objective cost estimate, based on industry standards.
2. The external property and land manager does the business plan estimate of cost and time for Infrastructure Ontario–initiated projects.
3. This is the external project manager's first estimate.
4. This estimate is used to measure the performance of the external project managers, based on how it compares with the actual cost of a project.
5. This trend is based on 70 projects with total actual costs to complete of $24,449,072. These projects were completed between 2012/13 and 2016/17. The number of projects completed in each fiscal year was as follows: 2012/13-21, 2013/14-34, 2014/15-10, 2015/16-4, 2016/17-1.

between the business plan estimate and the pre-tender estimate. Based on the sample, the weighted average difference between the business plan estimate and the pre-tender estimate was 31%, with differences in individual projects ranging from 86% lower to 1,509% higher.

4.3.2 Insufficient Work by External Property and Land Manager Results in Unreliable Cost Estimates

Infrastructure Ontario's Master Services Agreement with the external property and land manager states that each business plan estimate that the external property and land manager prepares, when compared with actual costs, should at the most differ by plus or minus 20%.

Infrastructure Ontario had not been tracking whether the external property and land manager is meeting this provision in the agreement. Our sample of capital projects showed that the difference between the business plan estimate and the actual costs differed by 22% ($20 million estimated cost compared to $24.4 million actual) overall. However, on a project-by-project basis, the differences were significant—actual costs ranged from being 89% less than the business plan estimate to 1,556% higher. For two-thirds of the projects sampled, the actual cost varied by over 20% of the business plan estimate. For nearly half of these, the variance was more than double.

The engineering firm we consulted with to review these cost estimates noted that the external property and land manager had not conducted sufficient work in reviewing site conditions to arrive at a reliable business plan estimate.

4.3.3 Post and Pre-tender Estimates Not a Good Measure to Control Costs

Infrastructure Ontario uses the external project managers' cost estimates to evaluate whether a project is "on budget." As per Infrastructure Ontario's agreement with the external project managers, actual costs are expected to be within 5% of the pre-tender estimates. Again, Infrastructure Ontario does not measure external project managers' compliance with this provision of the contract. Using available project management data for all projects completed during the six years ending 2016/17, we noted that the pre-tender estimates—and even post-tender estimates, which should be more accurate—varied significantly from the actual costs; for many of the projects, pre-tender and post-tender data was not tracked by Infrastructure Ontario. Of the $655 million of total project costs (1,533 projects) that we could analyze, only 15% of the costs came within 5% of their pre-tender estimates, and 38% of the costs came within 5% of their post-tender estimates. Over half of the total cost of projects had a variance greater than 20% of their pre-tender estimates and over 15% had a variance greater than 20% of their post-tender estimate.

4.3.4 Performance Pay Does Not Provide Sufficient Incentive for External Project Managers to Stay on Budget

External project managers have little incentive to contain final project costs to within budgets. Their performance pay for a project coming in on budget, that is, between the post-tender estimate and actual cost, was only about 0.5% of the total management fee for the project. Between fiscal 2011/12 and 2015/16, Infrastructure Ontario paid its three external project managers about $275,000—90% of the maximum possible performance fee for being on budget—for completing projects on budget. This compared with management fees paid during this period totalling $56.5 million, which is the total for the first five years shown in **Figure 15**.

Moreover, external project managers receive less performance pay if they underspend by more than 5% of the total amount Infrastructure Ontario allocates for projects to be spent by March 31, the end of the fiscal year. This measure was established to ensure all Infrastructure Ontario's funding is spent by the fiscal year-end because funds cannot be carried forward to the following year.

4.3.5 Completion Dates for Capital Projects Frequently Revised

Infrastructure Ontario has only one performance pay measure for external project managers for timeliness: it measures whether the contract is completed by the most recently revised completion date—but the revisions could occur at any time up to and after project completion. The performance measure requires that 90% of projects meet completion dates set in order to receive the maximum pay.

External project managers can revise project completion dates multiple times while the projects are ongoing and Infrastructure Ontario does not always ensure revisions are based on valid reasons. In some cases, circumstances beyond the project managers' control may necessitate such revisions. However, our audit work found that some date revisions did not appear reasonable and, in fact, appeared to be adjusted to ensure the performance measure on timeliness was met.

We reviewed a sample of projects that cost $143.5 million, completed between April 2013 and March 2017 where the planned completion date exactly matched the actual completion date, and found that in nearly half of our sample the project completion date had been revised after the project completion date had passed. For many of these projects, the reason provided by the external project manager was that the change was made to align the planned project completion date to the actual completion date. These projects reached project completion, on average, 330 days later than originally planned.

One of the ministries that had experienced delays for two security system installations, which were both ministry-funded, informed us that the cause was inadequate staffing provided by external project managers to oversee projects and incomplete or substandard work performed by vendors.

At the time of our audit, Infrastructure Ontario also performed an analysis to determine the frequency that the external project managers were adjusting completion dates and also found instances of project completion dates being revised after the project completion date.

RECOMMENDATION 4

In order to ensure capital projects planning uses reliable estimates to achieve cost-effective projects, we recommend that Infrastructure Ontario:

- review initial cost estimates to ensure they are reasonable for prioritizing capital projects to be funded;
- confirm that the external property and land manager and external project managers are complying with the provisions of their contracts or Master Services Agreement that expect their estimates of project costs to be within a certain percentage of actual costs, and take corrective action where necessary;
- re-evaluate and update future contracts to provide sufficient incentives to external project managers to complete capital projects on time and on budget; and
- review and confirm that external project managers have valid reasons for revising project completion dates.

RESPONSE FROM INFRASTRUCTURE ONTARIO

Within the funding envelope, Infrastructure Ontario currently uses a robust capital planning process that prioritizes projects based on health and safety and building code compliance. This process includes a needs assessment, initial cost estimate, design development, pre-tender and post-tender estimates, and actual project cost. Infrastructure Ontario has initiated a review of best practices of capital project costing with a third-party firm and will use its recommendations to inform its continuous improvement.

Infrastructure Ontario will continue to use the Master Services Agreement with service providers to meet contractual requirements related to all steps in the capital planning process.

Infrastructure Ontario is committed to better tracking data to drive continuous improvement in the development of various classes of estimates.

Infrastructure Ontario will assess in future contracts the options to provide incentives to external project managers to complete capital projects on time and on budget.

Infrastructure Ontario will review and confirm that there is a clear approach for revisions to project completion dates.

4.4 Lack of Information Provided to Ministries and Agencies on Operating and Maintenance Services

4.4.1 Type and Frequency of Individual Services Not Explained

All operating and maintenance agreements that were created in 2007 between Infrastructure Ontario and client ministries and their agencies for services, including snow removal, cleaning, security, landscaping, and maintenance of building components, expired in 2015. One ministry never had a signed agreement. Client ministries are required to have such agreements under the Memorandum of Understanding between Infrastructure Ontario and the Ministry of Infrastructure (Ministry).

Client ministries and their agencies are required to pay Infrastructure Ontario the full cost of operating and maintenance services required for the buildings they occupy. These services are arranged by Infrastructure Ontario's external property and land manager, with minimal involvement by Infrastructure Ontario itself, and are provided by outside service providers procured by the external property and land manager or through the ministry's or agency's lease agreements if their lease includes these services.

Client ministries are provided with invoices from the external property and land manager on behalf of Infrastructure Ontario that indicate the monthly charge for services in total for a particular building, but with no breakdown of number of services or service type. Most of the client ministries we interviewed informed us that they could not determine whether they were receiving the correct amount and type of services that they were paying for.

For example, they could not confirm whether they were receiving all the cleaning services they were being charged for, or the level and type of security or snow removal services, because they did not have a current agreement that detailed what the individual services were. **Figure 17** contains comments from some ministries to us on operating and maintenance services.

By not clearly informing client ministries and agencies of operating and maintenance services to be provided, Infrastructure Ontario is missing a potentially key control in ensuring that the services that are being paid for have indeed been provided.

Infrastructure Ontario informed us that it has an ongoing pilot project on providing more information to client ministries about operating and maintenance services and before the end of 2017 client ministries and agencies will have electronic access to this type of information.

4.4.2 Escalating Operating and Maintenance Costs

Under the Enterprise Realty Service Agreement (discussed in **Section 2.1.2**), Infrastructure Ontario earns a management fee equal to 15% of the operating and maintenance costs of government-owned properties. The 15% rate was arbitrarily set by the Ministry over 15 years ago, in 2001, and has not been reviewed or amended since.

Our analysis indicated that operating and maintenance costs have increased 16% from $186.5 million in 2011/12—when Infrastructure Ontario assumed responsibility for government properties—to $215.7 million in 2016/17. However, given that the amount of rentable square feet of government properties has been reduced through property disposals, operating costs per square foot have actually increased 36% over this period, on

Figure 17: Client Ministries' Written Comments on Operating and Maintenance Services

Source of data: Ministries receiving operating services from Infrastructure Ontario through its external property and land manager

- "We have also found that new contracts for cleaning, snow removal, etc. are tendered by [the external property and land manager] and services have been removed or frequency of services have been changed. We have no input in these changes and in some instances the [external property and land manager's] on-site maintenance staff are not even made aware of the change. For instance I noticed that the parking area (at one building) was not being cleaned as it normally was and I mentioned it to [the external property and land manager] after some time [it] told me that the cleaning of the parking garage was removed from the last parking contract. After many months they have hired the building cleaning company on a separate contract to clean the garage."
- "[Regarding] interior cleaning, [we] have yet to see a schedule of what is done where/when even though we have asked a number of times."
- "[A Ministry] previously had an agreement (early 2000s) that detailed all the services for the building and who had the responsibilities to perform those services (Landlord or Tenant). Currently, occupancy agreements provided to [our Ministry] do not identify individual buildings or provide specific details of services provided for them. We no longer have a quick reference document that can confirm what services are provided for ministry-occupied buildings, and must contact IO [Infrastructure Ontario] or their service provider to get those details. If we request a copy of a Lease from IO, typically only a portion of the applicable segment of the agreement is provided. If we request a copy of a service contract, IO does not provide a copy, only some details as they deem relevant. This can be an issue as illustrated in a very recent example. [Our Ministry] questioned the cleaning services being provided to another building. [Our Ministry] was initially told by IO that certain services were not part of the cleaning contract, and [we] acquired a third party vendor to perform those services. It was recently discovered, after much persistence on [our] part for IO to verify the contract, that those services were in fact included in the original contract. [Our Ministry] has been paying twice and we are now in the process of rectifying this issue and hoping to be reimbursed for the error. We have estimated that we paid approximately $16,000 unnecessarily over the last five years."

average 6% per year, as shown in **Figure 18**. This is much higher than the average annual increase in the consumer price index over this period, which was only 1.6%.

Infrastructure Ontario informed us that the reason costs have been increasing so substantially on a per rentable square foot basis is because it has been selling vacant buildings with low operating costs, and thereby reducing the rentable square footage of the portfolio at a greater rate than the reduction of operating costs.

Since 2015, the Enterprise Realty Service Agreement has required Infrastructure Ontario to annually compare operating and maintenance costs against industry benchmarks: specifically, Infrastructure Ontario is to use data from the Building Owners and Managers Association (BOMA), which has such average building cost data for Toronto. At the time of our audit, Infrastructure Ontario had only performed this cost comparison once, for the 2015 calendar year, for the 17 government-owned buildings in Toronto. As of March 31, 2017, they account for 3.5 million rentable square feet, or 9%, of the 39 million rentable square feet of all occupied government properties in the province. This cost comparison can only be done on government-owned buildings in Toronto because BOMA only has complete data for Toronto.

Repair and maintenance costs and utilities are the largest components of total operating and maintenance costs, representing 60% of the total. We compared BOMA's cost data for Toronto buildings with all government-owned buildings within Toronto over the last three years. While cost categories, such as security and cleaning, in government properties were lower than BOMA's average cost, we found that the repair and maintenance costs and utilities in government-owned properties' were consistently higher than BOMA's average, as seen in **Figure 19**.

Figure 18: Changes in Government-Owned Properties' Size and Cost, 2011/12–2016/17

Source of data: Infrastructure Ontario

	Trend in Size and Operating Expenses of Government-Owned Properties						% Increase Decrease 2011/12–2016/17	Avg. % Change Each Year
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17		
Rentable square footage of government-owned properties (millions of sq. ft.)	35.6	33.1	31.8	31.5	30.9	30.3	(15)	(3)
Operating and maintenance expenses of government-owned properties* ($ million)	186.5	186.8	198.7	203.6	212.0	215.7	16	5
Operating and maintenance cost per rentable square foot ($/sq. ft.)	5.24	5.64	6.26	6.46	6.86	7.12	36	6

* Includes occupied and vacant properties.

This is consistent with concerns raised by many of the client ministries we spoke to. Staff from these ministries informed us that in some cases they had compared the costs of repairs and maintenance work arranged by the external property and land manager with other vendors and found the external property and land manager to be more expensive. Ninety percent of repairs and maintenance costs consist of many small projects costing less than $10,000. For example:

- In 2014, the external property and land manager provided a quote for $18,000 for a plumbing-related project requested by the client ministry. The client ministry, finding this price to be high, obtained its own quote for $9,000 from a vendor used by the external property and land manager. However, the client ministry was not able to use this vendor and had to pay the $18,000.
- In 2016, a client ministry required electrical work and was quoted $2,000 by the external property and land manager, but when the client ministry asked to see the bids it found that another quote had been received for $1,000 to do the same work. The client ministry was able to obtain the lower-cost work as a result.

In September 2016, the Ministry of Infrastructure retained a consulting firm to undertake the OPS Realty Model Review, which was an assessment of the Province's current model for providing real estate services. We noted that the OPS Realty Model Review report, completed in March 2017, also concluded that the "Small Works [that is, maintenance] process was reported to be causing the most dissatisfaction [from client ministries] due to requests taking too long and costing too much."

RECOMMENDATION 5

To support client ministries and agencies in confirming that they are receiving value for money on operating and maintenance services, and consistent with the requirements in the Memorandum of Understanding between Infrastructure Ontario and the Ministry of Infrastructure, we recommend that Infrastructure Ontario:

- renew all operating and maintenance agreements between itself and client ministries;

Figure 19: Comparison of Operating and Maintenance Costs between Industry Benchmark and Buildings in Toronto Owned by Infrastructure Ontario (IO)

Source of data: Building Owners and Managers Association (BOMA) and Infrastructure Ontario

Operating and Maintenance Costs Categories	2014			2015			2016			3-Year Average
	BOMA[1] ($/sq. ft.)	IO ($/sq. ft.)	Comparison[2] (%)	BOMA[1] ($/sq. ft.)	IO ($/sq. ft.)	Comparison[2] (%)	BOMA[1] ($/sq. ft.)	IO ($/sq. ft.)	Comparison[2] (%)	Comparison[2] (%)
Cleaning	2.06	1.34	(35)	2.10	1.34	(36)	1.89	1.35	(28)	(33)
Repairs and Maintenance[3]	2.99	3.62	21	3.19	3.66	15	2.87	3.68	28	21
Utilities[4]	2.93	3.95	35	3.94	3.86	(2)	3.59	3.99	11	15
Roads and Grounds[5]	0.40	0.24	(40)	0.37	0.47	25	0.59	0.61	5	(3)
Security	0.91	0.69	(24)	0.88	0.71	(19)	1.03	0.72	(30)	(24)
Admin. and Management	2.60	2.54	(2)	2.48	2.67	8	2.67	2.72	2	2
Total	**11.89**	**12.38**	**4**	**12.96**	**12.72**	**(2)**	**12.63**	**13.08**	**4**	**2**

1. The Building Owners and Managers Association (BOMA) collects information from building managers, including operating costs, through an annual survey. Over 40 government-owned and private buildings' data is aggregated here for each year. Infrastructure Ontario's figures are based on data for the 17 buildings it owns in Toronto.
2. The comparison is the percentage by which IO costs are higher or (lower) than BOMA's costs.
3. Includes repairs up to $100,000 each.
4. Includes electricity and natural gas.
5. Includes parking.

- implement its plans to provide ministries and agencies with timely information on the volume, frequency and type of operating and maintenance services that they will receive, and have received, by building; and
- actively work with its external property and land manager to review and analyze the significant increases in operating and maintenance costs, and implement improvements needed to minimize such costs for client ministries.

RESPONSE FROM INFRASTRUCTURE ONTARIO

Good governance and strong relationships with client ministries are important to ongoing management of the realty portfolio. Infrastructure Ontario will work to renew agreements with client ministries as necessary.

At the time of this report, Infrastructure Ontario has initiated a pilot project aimed at providing client ministries with more information. We will continue to work closely with ministry Chief Administrative Officers to ensure awareness and transparency on operating and maintenance services.

Infrastructure Ontario consistently monitors and updates the state of good repair of its portfolio in consultation with its external property and land manager in order to inform short- and long-term capital planning. Due to the average age of the portfolio, operating and maintenance costs will continue to increase. Further opportunities to minimize costs will require a unified approach from the Ministry of Infrastructure, client ministries, the Treasury Board Secretariat and Infrastructure Ontario, and will also require increased investment.

4.5 Funding Shortfalls Having Detrimental Effect on Building Conditions

4.5.1 Repairs to Government-Owned Properties Increasingly Being Deferred; Building Conditions Deteriorating

Infrastructure Ontario's funding for lifecycle maintenance of government-owned properties consists of all base rents (which are supposed to approximate expected future capital repairs) charged to client ministries and their agencies, as well as funding from the Ministry of Infrastructure (Ministry). As seen in **Figure 20**, between 2011/12 and 2016/17, Infrastructure Ontario has received $1.05 billion in funding from these two sources for lifecycle maintenance.

Infrastructure Ontario's management informed us that base rents of about 90% of rentable square feet of government-owned property have been unchanged since 1998. Base rents are only revised when a new building is acquired or when government-owned buildings undergo extensive renovations. Infrastructure Ontario informed us that it would like to update these rents but this

Figure 20: Total Life-Cycle Maintenance Funding Received by Infrastructure Ontario from 2011/12 to 2016/17 ($ million)

Source of data: Infrastructure Ontario

Source of Funds	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Base rent* from client ministries and agencies	101.73	101.70	102.94	104.10	102.70	101.88	**615.05**
Ministry of Infrastructure funding for life-cycle maintenance	79.03	64.18	67.24	72.10	84.10	68.31	**434.96**
Total Funded	**180.76**	**165.88**	**170.18**	**176.20**	**186.80**	**170.19**	**1,050.01**

* Based on rentable square feet.

would require the Ministry to obtain approval from Treasury Board. Some base rents are as low as $1 to $5 per square foot, according to the OPS Realty Model Review report commissioned by the Ministry in 2017.

The effect of this shortfall in funding is that an increasing amount of maintenance work on government-owned buildings has been deferred, which has led to the condition of buildings deteriorating. In addition, Infrastructure Ontario indicated that, because of insufficient revenue, it has had to fund its operating costs for managing government properties from base rent payments instead of using these funds to repair government-owned buildings—which has led to a further deterioration of government-owned buildings (discussed in **Section 4.5.2**).

Under the Ontario Realty Corporation, deferred maintenance grew from $258 million in 2007/08 to $364 million in 2010/11 (about $35.6 million a year growth, on average). Since then, the amount of lifecycle maintenance work that has been deferred has more than doubled, from $420 million as of March 31, 2012, to $862 million as of March 31, 2017 (about $74 million a year, on average). The rise in the deferred maintenance is as follows:

- 2011/12: $420 million;
- 2012/13: $483 million;
- 2013/14: $502 million;
- 2014/15: $565 million;
- 2015/16: $663 million; and
- 2016/17: $862 million.

This has resulted in a worsening overall condition of government properties, as measured by the industry standard noted earlier in **Section 2.2.3** called the Facilities Condition Index (Index). As seen in **Figure 21**, the condition of government properties has deteriorated from an Index reflecting excellent condition to one that is good, but only just above the poor range.

As discussed earlier in **Section 2.2.3**, Infrastructure Ontario uses the Ontario government's standard for measuring the relative condition of buildings. This standard divides the cost of repairs required in the current and the next two years by the cost to replace the building. The Enterprise Realty Services Agreement between the Ministry and Infrastructure Ontario includes a performance target for Infrastructure Ontario to ensure that, based on the Ontario government standard, core government-owned buildings should be at an index of 0% to 10% (good condition) and at an index of 11% to 20% (fair condition) for transition buildings. The agreement, however, does not contain a timeline for when the standard should be met. Using this standard, as seen in **Figure 22**, 52% of the rental square feet of core buildings and 39% of transition buildings were in worse condition than the target set in the Enterprise Realty Service Agreement.

Infrastructure Ontario informed us that because funding has not kept pace with required maintenance costs, it has had to prioritize maintenance based on critical needs, such as those that impact health and safety, building code compliance and other emergency repairs. This has resulted in delays of at least five years in completing a large portion of planned preventive maintenance.

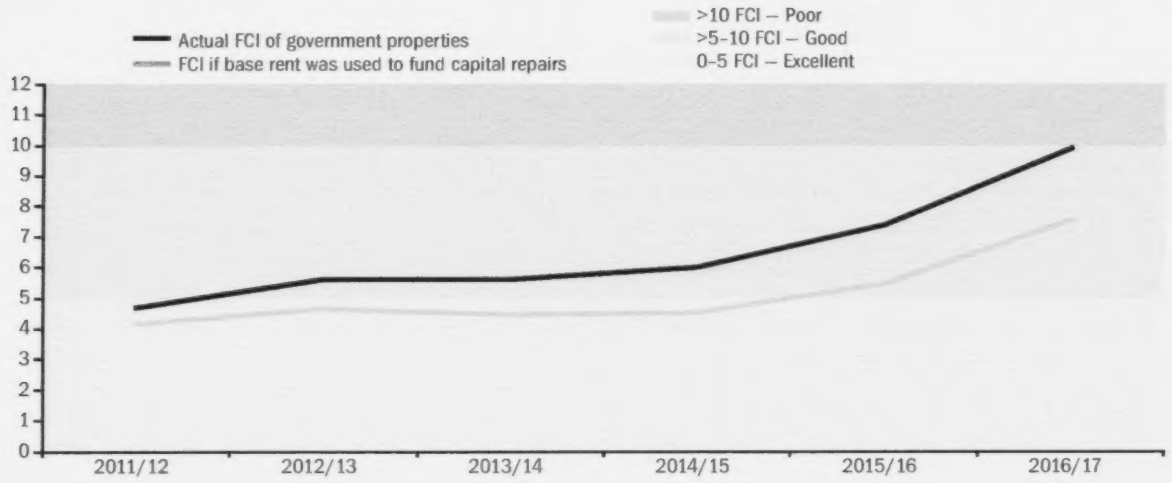
Deferring Maintenance Can Impact Service Delivery and Result in Additional Costs

Preventive maintenance, if done on a timely basis, can result in savings from avoiding costly repairs, as well as savings from other costs. Infrastructure Ontario senior management agreed that preventive maintenance is a cost-saving practice.

For example, capital repairs at the Ministry of the Environment and Climate Change's laboratory for testing drinking water have been deferred for at least five years. The Ministry of the Environment and Climate Change now spends about $20,000 annually on bottled water for the staff there because of elevated lead levels in the drinking water identified in 2012. Staff occupying this building informed us they are also facing other challenges in coping with the poorly maintained

Figure 21: Deferred Maintenance Translated to Facility Condition Index (FCI)

Source of data: Infrastructure Ontario



21a: Actual FCI of government properties

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Deferred Maintenance (A) ($ million)	420	483	502	565	663	862
Replacement Value (B) ($ million)	8,962	8,680	8,955	9,436	8,993	8,745
FCI (A/B) (%)	**4.7**	**5.6**	**5.6**	**6.0**	**7.4**	**9.9**

21b: FCI if base rent was used to fund capital repairs

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Deferred Maintenance (C) ($ million)	375	404	400	427	492	660
Replacement Value (B) ($ million)	8,962	8,680	8,955	9,436	8,993	8,745
FCI (C/B) (%)	**4.2**	**4.7**	**4.5**	**4.5**	**5.5**	**7.5**

facilities, such as a ceiling collapse in 2013 and another in 2017.

In the last three years, Infrastructure Ontario spent about $1 million on emergency repairs in the building related to electrical services and distribution. Infrastructure Ontario informed us that these repairs were a result of being unable to fund a $2.5-million electrical and service distribution renewal project that was first identified as requiring repair in 2013.

The poor condition of the building has also impacted the lab's ability to fulfill its mandate to protect the environment. Due to the poor condition of power systems—including back-up generators and distribution systems—between 2012 and 2015 the building experienced 46 power outages, 10 of which lasted longer than half a day. As a result, 200 high-priority samples, including legal samples, could not be tested. These samples were important since they were intended to be used either as evidence to support a potential prosecution in court regarding companies suspected of non-compliance with Acts such as the *Environmental Protection Act* and the *Ontario Water Resources Act*, or to support the Ministry's regulatory decisions. Samples in some cases had to be re-collected and tested, and, in a small number of cases, the samples were no longer acceptable to be used in court to support

Figure 22: Comparison of the Condition of Government-Owned Buildings[1] Using the Ontario Government Standard[2] Set in the Enterprise Realty Services Agreement[3] as of March 31, 2017

Source of data: Infrastructure Ontario

	Core				Transition				Total	
FCI	# of Buildings	% of Total	Area (RSF)	% of Total	# of Buildings	% of Total	Area (RSF)	% of Total	# of Buildings	Area (RSF)
0%–10%	435	59.1	9,626,917	48.4	46	64.8	458,233	47.1	**481**	**10,085,150**
11%–20%	184	25.0	5,699,515	28.7	15	21.1	134,265	13.8	**199**	**5,833,780**
21%–29%	71	9.6	2,404,861	12.1	5	7.1	107,825	11.1	**76**	**2,512,686**
30%–59%	39	5.3	1,293,880	6.5	2	2.8	258,988	26.6	**41**	**1,552,868**
≥ 60%	7	1.0	853,864	4.3	3	4.2	13,738	1.4	**10**	**867,602**
Total	**736**	**100.0**	**19,879,037**	**100.0**	**71**	**100.0**	**973,049**	**100.0**	**807**	**20,852,086**

1. This figure does not include 51 core and 61 transition buildings (total RSF of 1,057,682) because Infrastructure Ontario did not have their Facility Condition Index.
2. The Ontario government standard is the "Facility Condition Index" (FCI). The FCI is a percentage arrived at by dividing the cost of repairs required in the current and next two years by the cost to replace the building.
3. The Enterprise Realty Services Agreement states that core government-owned buildings should be at an index of 0% to 10%; while the Enterprise Realty Services Agreement states that transition buildings should have an FCI between 11% and 20%, the Ministry of Infrastructure informed us that the intention of this section is that transition buildings not exceed an FCI of 20%.

a potential prosecution. Also in 2015, the laboratory lost more than 3,000 microbiological cultures obtained from water quality studies as a result of prolonged power failure and no adequate backup power. These cultures could not be recovered.

4.5.2 Portion of Base Rent Spent on Infrastructure Ontario Operating Expenses

According to Infrastructure Ontario's guidelines, the base rent it charges client ministries and agencies is to be used to cover the cost of required lifecycle maintenance for government-owned properties. However, as noted earlier, Infrastructure Ontario indicated that it has had to use a portion of base rent to fund its operating costs related to managing government-owned properties (primarily salaries, as shown in **Figure 8**).

Over the past six years, Infrastructure Ontario has used $201.7 million of base rent to fund operating costs as follows:

- $45.0 million in 2011/12 (44% of base rent funding);
- $33.9 million in 2012/13 (33%);
- $23.3 million in 2013/14 (23%);
- $35.9 million in 2014/15 (35%);
- $32.6 million in 2015/16 (32%); and
- $31.0 million in 2016/17 (30%).

While this is not explicitly prohibited under the Enterprise Realty Service Agreement between Infrastructure Ontario and the Ministry, it has led to a further deterioration of government-owned buildings.

As seen in **Figure 21**, if Infrastructure Ontario had used all base rent funding for the purposes for which it was intended, the current Facility Condition Index of government properties would be 25% lower; that is, in the middle of the "good" condition range.

4.5.3 Low Rent Influences Ministries' Decisions to Stay in Buildings Needing Repairs

The "charge for accommodation" client ministries and agencies are charged consists of the following four components:

- base rent;
- operating and maintenance costs;
- payments in lieu of property taxes; and
- Infrastructure Ontario's facility management fee.

Base rent makes up almost one-third of the "charge for accommodation." The purpose of the "charge for accommodation" was to make ministries and agencies accountable for the cost of occupying the buildings. If base rents were updated regularly and were based on future capital repair costs—as was originally intended—client ministries and agencies would be basing their decisions on whether to stay or leave properties on actual expected costs of occupying the properties. This could translate to better decisions for the Ontario Government, because ministries would be more reluctant to be located in buildings that have a high base rent because extensive repairs are required.

Our analysis indicates that if base rents reflected the future capital repair costs required on government-owned buildings, in total, they would need to be increased by about $63 million, or 61%. We did our assessment by calculating the present-value of the cost of all planned capital projects for government-owned buildings across the province over the next 10 years and calculated this on a rentable-per-square-foot basis for each building. We compared these with actual base rents, and found significant discrepancies due to outdated base rents that no longer reflected expected capital repair costs in those government-owned buildings.

The OPS Realty Model Review that was commissioned by the Ministry of Infrastructure and finalized in March 2017 also noted, "the current legacy model of charging nominal rents ($1 to $5 per square foot) is not an effective tool to influence behaviours. Non-market rents do not enforce pricing discipline on programs, and the notional rent is insufficient to cover basic, needed capital repairs."

RECOMMENDATION 6

For government properties to be economically and efficiently maintained, we recommend that the Ministry of Infrastructure work with Infrastructure Ontario to:

- assess and revise base rents to match the projected cost of future capital repairs to properties and funding parameters for Infrastructure Ontario's fees; and
- establish and implement a plan to reduce deferred maintenance in government-owned buildings.

(We made a similar recommendation in our *2006 Annual Report*.)

MINISTRY OF INFRASTRUCTURE RESPONSE

The Ministry of Infrastructure's capital repair program is funded to ensure government buildings are safe and in compliance with all regulatory requirements. The Ministry is currently undertaking a review of the realty operating model and its associated financial model. As part of this review, the Ministry is working closely with Infrastructure Ontario and all ministry tenants to examine the funding required for proactive building maintenance and to pay for the provision of services in a more transparent manner. Additionally, the Ministry is committed to developing a plan for the government's consideration to decrease deferred maintenance in government-owned buildings.

4.6 Government Properties Could Be Used More Efficiently

4.6.1 Government Office Space in Excess of Ministry's Office Accommodation Standard

The Ministry of Infrastructure (Ministry) established the Office Accommodation Standard (Standard) in 2012, which sets the optimal usage of office space in order to minimize the footprint of government properties. This standard states that the size of an office in government properties should not exceed 180 rentable square feet for each person occupying it. This standard is lower than the Alberta Government's standard of nearly 195 usable square feet, and higher than British Columbia's

target of 112 usable square feet and the City of Toronto's of 140 rentable square feet.

The Ministry has not set a deadline by which Infrastructure Ontario must meet this standard. In 2012, the Ministry set an office space reduction target of 1.3 million rentable square feet in government properties for Infrastructure Ontario to meet by 2022. Infrastructure Ontario had achieved almost two-thirds of this by March 31, 2016. However, this represents less than a quarter of the 5.5 million rentable square feet that infrastructure Ontario would need to have eliminated in order to achieve the standard.

Ministries and agencies have reduced the rentable square feet per person from 364 as of March 31, 2013, to 288 square feet as of March 31, 2016. However, this is still 1.6 times higher than the standard of 180 square feet.

We analyzed the cost of building occupancy, including operating and maintenance costs and property taxes for government-owned and leased buildings, and costs for third-party leases. Our analysis indicated that if the standard of 180 rentable square feet per person was applied across all government-owned office buildings—and assuming the current cost information for each building—$174 million could be saved on an annual basis. This is slightly more than half the current office space cost of $346 million. This reduction in operating and maintenance costs would significantly reduce Infrastructure Ontario's management fee since this fee is based on 15% of operating and maintenance costs on government-owned buildings. Reconfiguring office space to realize such efficiencies would usually require one-time costs—such as to reposition office equipment and purchase less space-consuming furniture. However, Infrastructure Ontario has not conducted a cost-benefit analysis on achieving the standard across all government properties.

Infrastructure Ontario Required to Provide Ministries with Office Space Options

Furthermore, we did not find that Infrastructure Ontario was taking available opportunities to reduce office space used by client ministries and agencies. Infrastructure Ontario is required by the Ministry of Infrastructure's Realty Policy to present client ministries and agencies with an analysis of office space options at the time of a lease renewal or when a client ministry or agency is moving.

Of the 102 such opportunities in the 2015/16 year, Infrastructure Ontario did not produce an options analysis in 43% of the cases. In 38% of the cases where Infrastructure Ontario produced such an analysis, it did not recommend an option that reduced the space usage to meet the standard. For example, in 2016 Infrastructure Ontario recommended that a ministry renew a third-party lease for office space in Ottawa with a footprint of 398 square feet per person; the ministry accepted this option because it was already leasing the property and the renewal presented an opportunity to maintain the same lease rate.

We also noted that Infrastructure Ontario could enhance its data on building occupancy. Specifically, while it has data on the number of people within a building, this data is not consistently broken down by the number of people occupying each floor. Such information would allow Infrastructure Ontario to readily identify which floors within a building are vacant or underutilized so that they could be offered to other tenants as part of an office space options analysis.

RECOMMENDATION 7

To improve the efficiency of the use of office space by government ministries and agencies, we recommend that Infrastructure Ontario consistently prepare and present client ministries and agencies with an office space options analysis at the time of a lease renewal or when a client ministry or agency is moving. Such an analysis should be informed by up-to-date

and complete occupancy data for buildings within the Province's real estate portfolio. (We made a similar recommendation in our *2006 Annual Report*.)

RESPONSE FROM INFRASTRUCTURE ONTARIO

In conjunction with client ministries, Infrastructure Ontario will perform Real Estate Options Analysis when new space requests are made or when existing leases expire.

Enhanced availability of data on building occupancy can contribute to further rationalization of vacant and underutilized space. Infrastructure Ontario will continue to create occupancy master drawings for the office portfolio and work with ministries to receive better quality building occupancy information.

4.6.2 High Carrying Costs of Vacant Buildings

As seen in **Figure 1**, as of March 31, 2017, there were a total of 812 buildings, consisting of 5.1 million rentable square feet that were not used. These buildings incurred $18.9 million in costs, including operating costs, property taxes and maintenance, in the 2016/17 fiscal year.

We could not readily determine how long about a quarter of these buildings had been vacant because Infrastructure Ontario did not consistently track all building vacancies. Infrastructure Ontario started to track building vacancies in 2016. We calculated that the remaining 604 buildings had been vacant for almost eight years on average.

Infrastructure Ontario developed a 10-year divestment plan in 2015/16 to sell or otherwise dispose of about 907 buildings (421 buildings are included in the 812 vacant buildings noted above). Infrastructure Ontario has decided to divest these buildings for reasons such as significant repairs being needed to some buildings, or the locations of other buildings no longer serving the needs of the occupants.

Infrastructure Ontario plans to sell 80% of these buildings and demolish the rest. However, its divestment plan for these buildings is behind schedule. We found that Infrastructure Ontario had sold 40% of the 54 properties that it planned to sell in 2016/17. Reasons for not selling the properties included lengthy negotiations and consultation with prospective buyers and stakeholders, and the government deciding to retain some buildings.

RECOMMENDATION 8

To save on the annual operating cost of vacant buildings, we recommend that Infrastructure Ontario:

- track the dates of all vacancies; and
- follow its current building divesting plan and revise the plan, as necessary, to include all vacant buildings intended for disposal.

(We made a similar recommendation in our *2006 Annual Report*.)

RESPONSE FROM INFRASTRUCTURE ONTARIO

Infrastructure Ontario currently tracks the date buildings become vacant.

Infrastructure Ontario will follow and revise its 10-year divestment plan in a way that also considers other government priorities, such as duty to consult, environmental protection, heritage preservation and other government policy objectives.

4.7 No Plan Yet to Make Government Properties More Accessible

Infrastructure Ontario confirmed to us that it has not assessed the accessibility of its current government properties. However, it has indicated that it is compliant with the current requirements of the *Accessibility for Ontarians with Disabilities Act, 2005* (Act) and the Ontario Building Code (Code) because these do not require that existing assets be

retrofitted according to current accessibility standards. The Code requires that newly constructed buildings and buildings that undergo extensive renovations must meet accessibility standards enhanced in 2015. Despite owners not having to currently retrofit buildings, the Act's stated purpose is to "achieve accessibility for Ontarians with disabilities with respect to goods, services, facilities, accommodation, employment, buildings, structures and premises on or before January 1, 2025."

In 2016/17, Infrastructure Ontario informed the Ministry that it did not have the funds to support the Act's 2025 accessibility goal. This is as a result of the Ministry's direction and decision in 2013/14 to end funding for inspecting buildings for accessibility and retrofitting existing buildings.

In 2014, the City of Toronto's Facilities Management Division commenced work toward meeting the Province's goal of making Ontario accessible for people with disabilities by 2025. The City of Toronto has 427 owned buildings consisting of 12 million square feet. It is currently in the process of inspecting the level of accessibility in all buildings to determine the work required and cost to complete this work. As of September 2017, it had assessed almost half of its buildings for accessibility and anticipated assessing all buildings by April 2018. The City of Toronto informed us that, due to the size of the portfolio, timeline and industry constraints, it will be difficult to meet the 2025 deadline.

RECOMMENDATION 9

We recommend Infrastructure Ontario, in conjunction with the Ministry of Infrastructure:

- assess the current level of accessibility of government properties; and
- review and prioritize properties for potential and future investment to improve accessibility.

RESPONSE FROM INFRASTRUCTURE ONTARIO

Infrastructure Ontario will remain in compliance with the *Accessibility for Ontarians with Disabilities Act* (Act) and specifically with the requirements that all new buildings and major retrofits comply with the Act. Infrastructure Ontario will work in conjunction with the Ministry of Infrastructure to assess the current level of accessibility of government properties. Funding will be required for the assessment.

4.8 Ministry Has Not Assessed the Cost of Managing Government Properties

The Ministry has not assessed the true cost of efficiently and economically managing government properties, including, for example, whether the increases Infrastructure Ontario has incurred in managing government properties, discussed earlier, are reasonable and necessary. This is the first step that is required before setting reasonable and attainable performance metrics that support cost minimization, including the more efficient use of space.

The March 2017 Ministry-commissioned OPS Realty Model Review report also noted value-for-money concerns with the current delivery method: "Despite one of the proposed benefits of the current model to be cost effectiveness, it is not yet perceived that the current implementation of the OPS Realty model has fully achieved this. In fact, a number of Client Ministries expressed the perception that service via formal channels is slow and too expensive. The question of value for money was raised in most interviews."

The report further noted: "In general, there is no evidence to suggest that there is a formal performance measurement program in place to effectively monitor IO [Infrastructure Ontario] per the terms and conditions of the [agreement between Infrastructure Ontario and the Ministry]." The OPS

Realty Model Review also noted that the Ministry should assess whether the management of government properties is best served by Infrastructure Ontario or the Ministry.

RECOMMENDATION 10

To ensure government properties are well managed and maintained in an efficient and economical manner, we recommend that the Ministry of Infrastructure study and implement improvements to the management of government properties, including, as noted in the OPS Realty Model Review, different delivery options. (We made a similar recommendation in our *2006 Annual Report*.)

MINISTRY OF INFRASTRUCTURE RESPONSE

The Ministry is currently undertaking a review of the realty operating model and the associated financial model. As part of this review, the Ministry is working closely with Infrastructure Ontario and all ministry tenants to examine different options for effective service delivery in the management of government properties.

5.0 Detailed Audit Observations: Alternative Financing and Procurement

5.1 Hospitals Finding Maintenance under Alternative Financing and Procurement Expensive

As discussed in **Section 2.4**, the Alternative Financing and Procurement (AFP) model was developed by Infrastructure Ontario about 10 years ago. In an AFP, a public-sector entity, such as a hospital, establishes the scope of a project and a private-sector company finances and constructs the project. In some cases, the private-sector company contracts with the public-sector project sponsor to provide maintenance for the facility for 30 years. Currently there are 16 hospitals maintained under an AFP agreement. In addition, 10 other AFP agreements set out the maintenance of government-owned properties, including court houses and detention centres.

Two of the primary benefits that hospitals expected from an AFP maintenance agreement are that:

- the monthly payments hospitals must make for maintenance would cover all maintenance within the scope of the AFP agreement, including all lifecycle maintenance work throughout the hospital over the life of the agreement; and
- in exchange for payments to the private-sector company, hospitals transfer the risk of maintaining the hospital—such as if a piece of equipment breaks down—to the private-sector company.

However, all the hospitals we contacted informed us that, due to the way that private-sector companies have interpreted the AFP agreements, the hospitals are not realizing these benefits.

5.1.1 Hospitals Dispute Reasonableness of Cost of Work outside Original Agreement

The hospitals we spoke to informed us that their AFP agreements have not been structured to cover all maintenance work that hospitals require. Any work not originally included in the AFP agreement is categorized as a variation, which must be paid for over and above the annual AFP payments originally agreed upon.

While hospitals can use an outside vendor to complete work that is considered a variation under the AFP agreement, doing so transfers the risk associated with maintaining the related hospital assets from the private-sector company back to the hospital. Consequently, this creates practical difficulties for the hospital to maintain the asset

resulting from the variation separately from the rest of the hospital. Also, the hospital would become responsible for the lifecycle maintenance of any components that are procured from an outside third-party vendor, such as repairs and general upkeep of this component.

Because of the practical difficulties inherent in using an outside contractor, the hospitals we spoke to rarely elected to do this. Consequently, the hospitals we interviewed are all dependent on the AFP contractor to carry out variation work. Three of the hospitals we spoke to had been disputing with a private-sector company regarding what costs it should be allowed to charge for variations. As of July 2017, none of the three hospitals had reached an agreement with this private-sector company over this issue.

The hospitals indicated to us that, based on their experience, the market rate for providing variations is higher with the AFP contractor than if the hospital was to tender for these services outside of the agreement. The hospitals informed us that disputes over what constitutes appropriate costs are ongoing. For example, one hospital has had 166 variations, including installing automatic door openers, window tinting and additional lighting, and constructing a temporary overflow parking lot, for a total capital cost of $1.2 million. The hospital is disputing about $65,000 of charges from the private-sector company because the private-sector company has allocated the full market rate (that is, the rate charged to external clients) of head office staff, even though the AFP agreement stipulates that only direct costs may be allocated.

One of the hospitals we spoke to decided to construct a parking lot outside of the AFP agreement because the private-sector company was slow in providing cost estimates and plans; this early planning had already taken over two years, with little progress made. The hospital also found some of the cost estimates to be higher than reasonable in some areas. After deciding to go outside of the AFP agreement, the hospital is now waiting for Ministry of Health and Long-Term Care approval to competitively procure a contractor. Consequently, after the parking lot is constructed, this hospital will be responsible for the parking lot's upkeep and maintenance.

While the AFP agreement provides several types of escalating dispute resolution methods, hospitals informed us that the processes are collectively time-consuming, as detailed in **Section 5.1.2**, and ineffective at resolving disputes. For example, while the AFP agreement allows for an independent certifier (paid 50/50 by the hospital and the private-sector company), who is intended to be impartial, to help resolve a particular dispute, hospitals informed us that the independent certifiers assigned may not always be impartial because their ongoing work comes from the private-sector companies and not the hospitals.

Infrastructure Ontario senior management have informed us they have been working since summer 2014 to amend the template for future agreements to help hospitals control costs associated with variations over the term of agreements.

5.1.2 Hospitals Want Clearer Definition of Failures

All hospitals that we interviewed indicated that a clearer definition is needed in the AFP agreements to categorize types of failures by the AFP contractors that can occur during the maintenance phase of the AFP agreement. Failures can include a lack of availability of a section, room or equipment; for example, an elevator stops working, or an automatic door will not automatically open.

The AFP agreement levies a more severe penalty on the contractor, possibly 100 to 1,000 times greater, for availability failures compared with other types of failures. However, the onus is on the hospitals to prove to the independent certifier that a particular failure is an availability failure versus another failure with lesser penalties. As a result, the private-sector company is motivated to designate failures as something other than an availability failure.

The following are examples of disputes that have arisen between hospitals and the AFP contractor:

- In one of the hospitals we interviewed, 30 out of 84 negative pressure rooms were not in use from May 2015—when the construction of the hospital was determined to be substantially complete—to July 2017, when the private-sector company finally acknowledged and started to address the deficiency. Making these rooms available is the responsibility of the AFP contractor under the maintenance portion of the agreement. According to the CEO of the hospital, this is a serious matter because negative pressure rooms are used for infection control, and the hospital has been required to find suitable infection-free space for patients elsewhere in the hospital. The CEO indicated that although no patient-care-related incidents have been attributable to the non-functioning negative pressure rooms, the unavailability of these rooms exposes the hospital and patient care to a higher level of risk. The CEO informed us that the hospital was unable to persuade the private-sector company to acknowledge that the problem existed until 15 months after substantial completion. The hospital CEO further noted that, even after acknowledging the availability failure, the private-sector company was still very slow to respond to and resolve the failure, causing the hospital to suggest that it appeared that the penalties were not significant enough to incentivize faster resolution. To date, the hospital has withheld $139,000, which represents two months' worth of penalties. As of July 2017, this situation remained largely unchanged.
- In another hospital, the Personal Alarm System, which is a central monitoring system that is intended to ensure the health and safety of patients, staff and visitors, experienced repeated failures since January 2014; these persisted into 2017. Examples of the failures include false alarms, system slowdowns, security office camera problems, and door lock issues. The hospital and the private-sector company are in dispute regarding the amount of penalty, in the form of deductions against payments to the private-sector company. The hospital has asserted that the amount of deductions allowed under the AFP agreement totals over $71.4 million over the three-year period, but the private-sector company has not recognized any failures. In addition, the hospital has incurred over $2.3 million in legal, consulting and other professional fees since January 2014 to deal with this issue.

Infrastructure Ontario informed us that, in its view, hospitals were interpreting the AFP agreement differently and that a consistent approach could help hospitals manage their AFP agreements more efficiently.

RECOMMENDATION 11

We recommend that Infrastructure Ontario:

- support hospitals with Alternative Financing and Procurement (AFP) project agreements to ensure these arrangements result in more cost-effective maintenance for hospitals; and
- expedite its review of the AFP agreement based on the experience and feedback of project owners and revise the agreement to be used in future AFP projects to minimize future contract disputes with respect to variations and the costs associated with them.

RESPONSE FROM INFRASTRUCTURE ONTARIO

Infrastructure Ontario has a mandate from the Ministry of Infrastructure to oversee the management of AFP contracts in the operations phase for government properties such as courthouses and detention centres. The benefit of this approach is the consistent application of the AFP agreements in order to fully leverage the tools available in the agreements. Infrastructure

Ontario has an agreement in principle with the Ministry of Health and Long-Term Care to play a similar role for AFP contracts within hospitals that are in the operations phase and Infrastructure Ontario would require a mandate from the Ministry of Infrastructure to do this.

Infrastructure Ontario has completed its review of the variation schedule of the AFP agreement, and the resulting improvements are being introduced into all future AFP projects.

5.1.3 Private-Sector Companies Win New AFP Contracts despite History of Disputes

When evaluating bids for AFP projects, we found that Infrastructure Ontario had not considered the private-sector companies' disputes with project owners during the maintenance phase of existing AFP projects. As a result, private-sector companies in the consortia that have performed poorly in maintaining buildings—in that they have had many failures and disputes with hospitals and other government entities—have been members of other consortia that have been awarded additional AFP contracts.

One private-sector company has been awarded 13 AFP projects since 2008, valued at about $9.3 billion. Of these 13 projects, nine are hospitals that have been in operation as early as June 2010. Staff from some of these hospitals informed us that they have experienced problems with this company. For example, one of the hospitals managed by this private-sector company has been in dispute over costs associated with variations—work that the AFP contractor argues is not part of the agreement—since 2013, and the issues remained unresolved as of July 2017. Despite this evidence of an ongoing dispute with the hospital, this private-sector company was awarded a contract in October 2016 for $1.3 billion and again in March 2017 for $685 million to design, build, finance and maintain two other hospitals.

The AFP agreement has been amended over the years based on the experience of past project owners to attempt to prevent a repeat of similar disputes, but it does not appear to have been revised adequately. In March 2017, a one-time discussion forum was held consisting of Infrastructure Ontario (IO) and CEOs of hospitals maintained under the AFP framework. One hospital CEO noted: "IO does not act in a punitive enough capacity to truly shut down private-sector company antics, allowing them to bid on additional projects when they are causing issues in existing contracts." Another CEO informed us that this view is shared among the other hospitals.

RECOMMENDATION 12

In order to improve the delivery of maintenance services through Alternative Financing and Procurement agreements, Infrastructure Ontario should:

- institute a formal evaluation program of private-sector companies' performance during the Alternative Financing and Procurement maintenance phase in existing agreements; and
- incorporate their performance when evaluating future bids by the private-sector companies.

RESPONSE FROM INFRASTRUCTURE ONTARIO

Infrastructure Ontario was the first public procurement agency in the world to implement a vendor performance program for construction of AFP projects. The complexity around AFP consortia resulted in Infrastructure Ontario applying the vendor performance program to 12 objective criteria during the construction phase. Infrastructure Ontario will explore the potential to develop a method to assess vendor performance of the maintenance service provider within the consortia. In doing so, Infrastructure Ontario will continue to balance the need to provide incentives for good performance with the need for a vendor performance

program to be based on criteria that are objective, defensible, reasonable, consistent, commercially viable and practically administrable.

5.1.4 Hospitals Experience Funding Shortfalls for AFP Maintenance Agreements

Four hospitals that we spoke to with AFP maintenance agreements have either requested additional funding from the Ministry of Health and Long-Term Care or informed us that they had experienced a funding shortfall, but had not made a request for additional funding from the Ministry. These hospitals advised us that the total funding shortfall was $8.1 million in 2015/16.

According to the hospitals, these shortfalls are due to higher operating costs associated with the AFP maintenance agreements. The Ministry was aware that hospitals with AFP maintenance agreements had funding concerns, based on communications from hospitals dating back to 2012. Consequently, the Ministry surveyed many of the hospitals to request information on their maintenance costs and in 2016/17, the Ministry provided an additional $5.3 million in top-up funding to six hospitals with AFP maintenance agreements that had received less-than-average funding for maintenance compared with other hospitals maintained under AFP agreements.

The hospitals used the additional funding to support:

- the higher cost of maintenance in the early years of the AFP agreement. This happens because maintenance payments are equally spread out over the term of the AFP agreement. However, a new hospital maintained under the traditional method would usually have lower costs in the earlier years and higher maintenance needs as the building and equipment age; and
- higher administrative costs needed to manage the AFP framework, such as the legal costs incurred in resolving disputes over variations and failures with the AFP contractor described in **Section 5.1.1**. Also, the hospitals we spoke to have noted that they have had to hire full-time staff to manage the AFP agreement.

However, according to the hospitals we spoke to, the additional funding provided by the Ministry does not cover the entire amount of the shortfall. One hospital we contacted during the audit indicated it was short $1 million annually, despite the Ministry providing $1.3 million top-up funding. Another hospital indicated it was short $1.65 million annually, but the Ministry did not provide any additional funding because it was not one of six below-average-funded hospitals.

The Ministry informed us that it has conducted extensive analysis, and consultation with hospitals, which resulted in the additional funding being provided. Existing policies are also being updated to provide clarity on any future funding shortfalls. However, management at the hospitals informed us that they have been required to reduce funding in other areas within their existing budgets to make up these shortfalls.

RECOMMENDATION 13

In order to ensure hospitals are able to fund required maintenance, we recommend the Ministry of Health and Long-Term Care continue to work with hospitals, and in co-ordination with Infrastructure Ontario, assess whether hospitals are experiencing funding shortfalls and devise strategies to mitigate their impacts under Alternative Financing and Procurement maintenance agreements.

MINISTRY OF HEALTH AND LONG-TERM CARE RESPONSE

The Ministry of Health and Long-Term Care agrees with the recommendation and will continue to work with hospitals and Infrastructure Ontario.

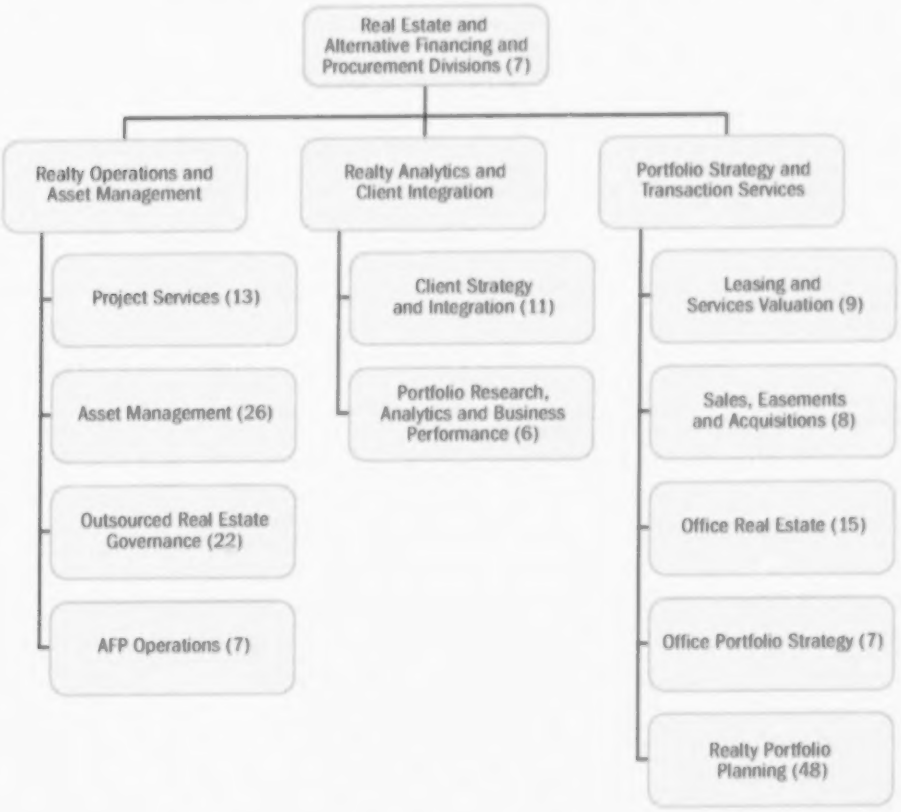
Appendix 1: The 34 Agencies That Manage Their Government-Owned Property

Prepared by the Office of the Auditor General of Ontario

1.	AgriCorp
2.	Agricultural Research Institute of Ontario
3.	Alcohol and Gaming Commission of Ontario
4.	Algonquin Forestry Authority
5.	Education Quality and Accountability Office
6.	Higher Education Quality Council of Ontario
7.	Legal Aid Ontario
8.	Liquor Control Board of Ontario
9.	McMichael Canadian Art Collection
10.	Metrolinx
11.	Metropolitan Toronto Convention Centre Corporation
12.	Nawiinginokiima Forest Management Corporation
13.	Niagara Escarpment Commission
14.	Niagara Parks Commission
15.	Ontario Agency for Health Protection and Promotion
16.	Ontario Clean Water Agency
17.	Ontario Educational Communications Authority (TVO and TFO)
18.	Ontario Energy Board
19.	Ontario Food Terminal Board
20.	Ontario Heritage Trust
21.	Ontario Mortgage and Housing Corporation
22.	Ontario Northland Transportation Commission
23.	Ontario Place Corporation
24.	Ontario Public Service Pension Board
25.	Ontario Science Centre
26.	Ontario Trillium Foundation
27.	Ottawa Convention Centre Corporation
28.	Owen Sound Transportation Company
29.	Province of Ontario Council for the Arts (Ontario Arts Council)
30.	Royal Ontario Museum
31.	Science North
32.	St. Lawrence Parks Commission
33.	Toronto Islands Residential Community Trust Corporation
34.	Walkerton Clean Water Centre

Appendix 2: Staffing Chart of Infrastructure Ontario Real Estate Service

Prepared by the Office of the Auditor General of Ontario


Real Estate and Alternative Financing and Procurement Divisions (7)
Realty Operations and Asset Management
Realty Analytics and Client Integration
Portfolio Strategy and Transaction Services
Project Services (13)
Asset Management (26)
Outsourced Real Estate Governance (22)
AFP Operations (7)
Client Strategy and Integration (11)
Portfolio Research, Analytics and Business Performance (6)
Leasing and Services Valuation (9)
Sales, Easements and Acquisitions (8)
Office Real Estate (15)
Office Portfolio Strategy (7)
Realty Portfolio Planning (48)

Appendix 3: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Management information systems provide timely, accurate and complete information on real estate holdings within the Province's general real estate portfolio, and their use to support decision-making for real estate and accommodation activities.
2.	The Province's real estate assets are effectively and economically maintained and managed to: a) provide a healthy and safe environment; b) maximize their service life; and c) provide service levels that meet the requirements of client ministries and agencies.
3.	The framework used to maintain real estate assets under an Alternative Financing and Procurement arrangement ensures that such assets are effectively maintained in an economical manner throughout the lifecycle of the Alternative Financing and Procurement contract.
4.	Accommodation needs are satisfied in a timely, efficient and economical manner in compliance with relevant legislation and policies following a proper analysis of needs, costs and alternatives.
5.	The lease, acquisition and disposition of real estate assets are fair, open and competitive and sales to the private sector result in maximizing returns for the Province. Procurements of goods and services are properly justified, approved, and competitively sourced and vendor performance is effectively monitored with appropriate measures taken for poor performance.
6	Roles, responsibilities and accountability requirements are clearly defined between both Infrastructure Ontario and the Ministry of Infrastructure and Infrastructure Ontario and client ministries/agencies.

Ministry of Education

School Boards' Management of Financial and Human Resources

1.0 Summary

There are 72 publicly funded district school boards in Ontario responsible for overseeing elementary and secondary education for about two million students. Specifically, school boards are responsible for promoting student achievement and well-being, and for effective stewardship of resources. In the 2016/17 school year, school boards were allocated $23 billion by the Ministry of Education, of which the majority was used at the discretion of individual boards.

For the purpose of this audit, we visited four school boards in southern Ontario—Toronto Catholic District School Board (Toronto Catholic), Hamilton-Wentworth District School Board (Hamilton-Wentworth), Halton Catholic District School Board (Halton Catholic), and Hastings and Prince Edward District School Board (Hastings and Prince Edward).

We found that the boards we visited used funding restricted by legislation for the purposes for which it was provided. However, funding provided for specific purposes, but not restricted by legislation, was not always used for the specific purposes intended. School boards often used a portion of this money to offset financial pressures in other areas, such as teacher salaries and benefits and special-education program costs. From the 2011/12 to the 2015/16 school year, boards experienced added financial pressures because of an increase in sick days by board employees. A study of over 50 school boards found that for the five-year period, sick days increased by 29%, and the overall sick leave paid as a percentage of payroll increased 25%.

We found that these pressures often resulted in boards redirecting funding originally intended for students who were at risk of experiencing academic difficulty because of social and economic factors, as well as students who were not fluent in English, to other areas.

We also noted that improvements were needed in how school boards are measuring, assessing and reporting on operational effectiveness. Each of the school boards we visited has a multi-year strategic plan that outlines its goals. However, most school boards did not have measurable indicators and targets for all their stated goals. All four boards report results of standardized testing conducted by the Education Quality and Accountability Office (EQAO) in their annual reports.

On a positive note, school boards have been increasing their use of group purchasing arrangements to acquire goods and services, which should result in cost savings. For instance, we noted that the value of school board purchases acquired through supplier agreements negotiated by the Ontario Education Collaborative Marketplace increased from $10 million in 2010 to $112 million

in 2016. By December 2016, 71 of the 72 school boards in Ontario were participating in this group purchasing plan.

The following are some of our specific concerns regarding school boards' management of financial and human resources:

- **Sick days for school board employees increased 29% over the last five years, causing the boards financial pressures.** From the 2011/12 school year to the 2015/16 school year, three of the four boards we visited noted an increase in employee sick days ranging from 11% to 40%. Both Hamilton-Wentworth and Hastings and Prince Edward saw increases in sick days for each employee group. Halton Catholic experienced increases in some groups and decreases in others. Over the same five-year period, for three boards for which information was available, salary costs paid to employees while they were off sick increased by 32% to $42.7 million in the 2015/16 school year. According to a study commissioned by school boards, barriers preventing the effective management of absenteeism by school board employees included the design of the centrally negotiated sick leave plan, a lack of attendance support programs, and a lack of clear accountability for monitoring sick days.
- **School boards are missing an opportunity to improve teaching quality through teacher performance appraisals.** None of the four boards we visited completed the two mandatory appraisals for all new teachers within 12 months of being hired, as required under the *Education Act, 1990* (Act). In fact, at one school board, more than 35% of new teachers were not appraised as required in their first year. The lack of timely appraisals impacts the new teachers' ability to receive feedback and seek timely professional development required to be successful in the profession. For experienced teachers, three of the four school boards we visited completed at least 90% of the appraisals within the required five-year period. An experienced teacher can be rated satisfactory or unsatisfactory, according to the Ministry's Teacher Performance Appraisal manual. We were told that principals are hesitant to give an unsatisfactory rating unless they are working toward terminating the teacher. For the four boards we visited, fewer than 1% of the teachers evaluated were rated unsatisfactory.
- **Student achievement results are not a key factor in the allocation of resources.** The Act requires that boards allocate resources to improve student achievement in areas where students are performing below provincial benchmarks. Two of the four boards we visited agreed that smaller class sizes lead to better student outcomes, but only Hamilton-Wentworth attempted to create smaller classes in schools with lower student achievement. Board management for the other three boards was mainly concerned with meeting provincial class size restrictions. However, all four boards visited informed us of additional supports they provide or plan to provide to schools that are struggling academically. For example, one board informed us that it is planning to allocate additional reading specialists to high-priority schools identified by socio-economic factors and low Early Development Instrument (EDI) scores, starting in the 2017/18 school year. EDI scores are based on questionnaires completed across Canada by kindergarten teachers for each student, and they measure whether children are meeting age-appropriate developmental expectations entering Grade 1.
- **Funding for students at risk of academic difficulty not always spent as intended.** The Ministry provides funding for students at risk of low academic achievement through the Learning Opportunities Grant. At-risk students are identified through social and economic indicators, such as households

with low income and low parental education. The boards have discretion on how they can spend much of this funding. We noted that Toronto Catholic used only 50% of the $46.5 million it received for at-risk students, while the remaining funds were used to support a shortfall in teacher salaries and special-education funding. Although Toronto Catholic was not in violation of funding restrictions, we did note that elementary schools in neighbourhoods with lower household incomes have consistently performed poorly compared with higher-income neighbourhood schools. This achievement gap highlights the importance of using the Learning Opportunities Grant funding for its intended purpose of focusing on students at greater risk of low academic achievement.

- **Language grant provided for English-language learners is being spent on other purposes.** The Ministry provides funding to all English school boards for English as a second language/English literacy development. The funding is to provide language instruction to recent immigrants from non-English-speaking countries. However, this funding is not restricted for use in language instruction. For the 2015/16 school year, Toronto Catholic used 58% of the $23.9 million it received for English as a second language students, and the remainder was used to alleviate cost pressures in other areas, despite the fact that in its 2014-2018 Board Learning Improvement Plan, the board stated that "…our [EQAO performance] data indicate we will need to redouble our efforts with English-language learners and students with special needs." An analysis of EQAO results for the period of 2011/12 to 2014/15 in reading and math showed that English-language learners at Toronto Catholic elementary schools were performing worse than the average for the board.
- **Nearly a quarter of special-needs students are waiting longer than a year to receive psychological assessments.** All four boards we visited had long lists of students waiting to be assessed or served by professionals in the areas of psychology and speech and language. For three of the four boards, 24% or more of the students on the psychological services wait lists had been waiting for more than a year. Some students had been on the wait lists for more than two years. In addition, two boards had students waiting more than a year for speech and language assessments. Timely assessments allow school boards to devise long-term plans to provide services that best meet students' needs. Despite the long wait lists, three of the four school boards we visited were not scheduling specialist assessments during the two summer months to help reduce backlogs.
- **Specialist assessment wait times differed significantly based on the school area within the same board.** Wait times for specialist assessments could vary significantly between schools in the same board. All four boards assign each of their specialists to a specific group of schools. Although all four boards compile central wait lists, specialists with smaller workloads were not reassigned to schools outside their specific group to help reduce the backlog in assessments. We noted that in the Hamilton-Wentworth board a student at one school had been waiting for more than two years (853 days) to be assessed, while in another school the longest wait was less than six months (164 days).
- **Operational improvements recommended by regional internal audits were not implemented.** Two of the four school boards we visited did not implement significant recommendations made by regional internal audit teams on a timely basis from audits completed between summer 2012 and summer 2015. Toronto Catholic and Hamilton-Wentworth had implemented only—48% and 61% respectively of the recommendations made by

their regional internal audit teams. At Toronto Catholic, internal audit recommendations not yet acted on included setting up an attendance support program and case management software for central tracking of special-education service referrals and backlogs. Our audit also noted that Toronto Catholic needed to improve wait times to assess students with special needs and to better manage costs associated with the increasing number of teacher sick days. Hamilton-Wentworth would have benefited from implementing the recommended preventive maintenance program to guard against further deterioration of school facilities, especially since one of its strategic goals is to reduce the number of schools in poor condition by 2020.

This report contains 11 recommendations, consisting of 23 actions, to address our audit findings. Although the recommendations are aimed at the four school boards we visited, other school boards should also consider implementing them to help them better manage their financial and human resources.

Overall Conclusion

We concluded that the school boards in southern Ontario we visited did not ensure that all funding provided for specific education priorities, such as students at risk of poor academic performance, were used for those purposes. As well, they can improve their assessing and reporting of operational effectiveness by setting measurable targets for their strategic goals and reporting on them annually.

The boards were in compliance with Ministry guidelines on the use of restricted funding and class sizes, but did not meet the legislated requirements for appraising some new teachers within 12 months and to a lesser extent experienced teachers and principals within the required five-year period.

School boards were also not able to provide the most suitable services to students with special needs, as a significant number of these students were waiting longer than a year for psychological and/or speech and language assessments. In addition, school boards need to develop effective attendance support programs to manage the increase in sick days taken by school board employees. School boards could also improve operations by sharing best practices identified by regional internal audit teams.

2.0 Background

2.1 Overview

Under Ontario's Ministry of Education (Ministry) there are 72 publicly funded district school boards responsible for overseeing elementary and secondary education for about two million students. All areas of the province are served by four types of school boards—English public boards, English Catholic boards, French public boards and French Catholic boards. There are approximately 4,590 schools, 113,600 teachers and 7,300 administrators in the system.

The role of school boards is to promote student outcomes and student well-being; develop and manage budgets in line with funding allocations; allocate staffing and financial resources to individual schools; approve school textbooks and learning material; supervise school operations and teaching programs; develop and implement a capital plan, including decisions to open new schools or close old or underutilized schools; and comply with the requirements of the *Education Act, 1990*, and its regulations.

2.2 Governance Structure of School Boards

Appendix 1 outlines the governance structure of a typical school board. The four key leadership roles in school boards are explained.

Municipally **elected trustees** form the board of trustees for each school board and are responsible for the governance and oversight of their individual school boards. Trustees are elected every four years in accordance with the *Municipal Elections Act, 1996*. The number of elected trustees can range from five to 22, based on the electoral population. Trustees represent the interests of parents and students in their local area. Individual trustees do not have the authority to make decisions or take action; decisions are based on a majority vote of the board of trustees. The responsibilities of the boards of trustees include: developing a multi-year strategic plan aimed at promoting student achievement and well-being; ensuring effective stewardship of board's resources; ensuring delivery of effective and appropriate education programs to students; approving the board's budget; and hiring and evaluating the performance of the board's director of education.

The **director of education** is the chief executive officer of the school board. The director of education reports to the board of trustees, usually through the board chair. He/she is responsible for the following: advising the board of trustees on operational matters; implementing board policies; managing all facets of school board operations, such as hiring superintendents to oversee various program areas and school operations; allocating operating funds and resources to schools; implementing and monitoring the board's multi-year strategic plan; implementing Ministry policy; and transmitting to the Ministry all required reporting information. All school board staff report either directly or indirectly to the director of education. The school board's administrative office staff provide administrative and other assistance to senior management in carrying out their responsibilities. Boards also have professional staff in the areas of special education, such as psychologists and speech pathologists.

Superintendents report to the director of education and are responsible for implementation, operation, and supervision of educational programs in their assigned schools. The number of superintendents per school board varies across the province. A typical school board has superintendents for education, human resources, and finance. Most school boards have more than one superintendent for education, focusing on various education programs, such as student success, special education, and leadership and equity.

A **Principal** is responsible for the overall management and leadership of an individual school. His/her responsibilities include setting direction, supervising teachers and staff; admitting students; overseeing the teaching curriculum; ensuring approved textbooks are used in classrooms; and maintaining school discipline. The principal's role in a school may be supported by a vice-principal, depending on the size of the school. The school staff includes classroom teachers; early childhood educators (for kindergarten classes); educational assistants (primarily for special-education students); administrative assistants; lunchroom supervisors; hall monitors; library staff and custodians. Other staff who provide support to the school include attendance counsellors, social workers, child/youth workers, community workers, computer technicians and classroom consultants (program specialists who help teachers or students directly by providing support and guidance on designing lessons, teaching strategies, and assessment practices) who typically support a group of schools.

2.3 School Board Funding

2.3.1 Sources of School Board Funding

The Grants for Student Needs (GSN) funding is the largest component of funding for school board operations. It represents about 90% of annual funding to school boards. In the 2016/17 school year, funding through the GSN totalled $22.9 billion. GSN funding comes from the Ministry and from education property taxes, which are collected and distributed by municipalities. The Ministry also provides funding to school boards through transfer payment agreements for programs and initiatives being piloted or designed to be short-term in nature. These grants,

funded through Education Programs—Other (EPO) totalled $212 million in 2016/17.

The remaining almost 10% of school board revenue comes from other provincial ministries, the federal government, tuition from foreign students, or is school-generated through, for example, field trips, fundraising events, cafeteria sales and rental income.

2.3.2 Composition of GSN Funding

The (GSN) has two major components—foundation grants and special purpose grants—and each component accounts for about half of the total GSN funding. Foundation grants are intended to cover the basic costs of education common to all students and schools. Special purpose grants are intended to take into account the unique needs of school boards such as demographics, school locations, and special-education needs to help reduce any gap in achievement results between specific groups of students and overall student results.

Funding provided under the foundation grants can be used at the boards' discretion. Funding provided under special purpose grants may or may not be used for discretionary purposes, depending on the specific grant.

School boards can use any unspent funding in the following year. Unspent restricted funding must be spent on the restricted purpose in the following year.

2.4 School Board Use of Funds

2.4.1 Management of Board Funds

The majority of school board expenditures occur at the individual school level, but the school board administration maintains control over most of these funds. The board pays for all staffing costs, transportation costs, and school utilities directly from these central funds. The school board administration also determines the allocation of teachers and other staff to each school, based on student enrolment and regulated class size restrictions.

A small amount of funding is transferred to individual schools for specific purchases, such as textbooks, printing and photocopying, or other learning resources. Schools may also generate additional funds directly through activities, including fundraising, field trips, and donations. These funds remain at the school and are to be used only for their specific purposes. The school board consolidates these funds and reports them to the Ministry.

2.4.2 Breakdown of Board Expenditures

Figure 1 provides a breakdown of expenses for school boards. In the 2015/16 school year, the latest year for which expenditure information is available, almost 80% of expenses for school boards were employee-related costs. School boards spent 15% on purchases of goods and services, and the remainder were expenses related to capital assets.

2.5 Education Goals and School Board Strategic Planning

The Ministry's April 2014 strategic plan—*Achieving Excellence: A Renewed Vision for Education in Ontario*—outlines the Province's four overarching goals for the education system as follows:

- **Achieving Excellence:** Children and students of all ages will achieve high levels of academic performance, acquire valuable skills and demonstrate good citizenship. Educators will be supported in learning continuously and will be recognized as among the best in the world.
- **Ensuring Equity:** All children and students will be inspired to reach their full potential, with access to rich learning experiences that begin at birth and continue into adulthood.
- **Promoting Well-Being:** All children and students will develop enhanced mental and physical health, a positive sense of self and belonging, and the skills to make positive choices.
- **Enhancing Public Confidence:** Ontarians will continue to have confidence in a publicly

Figure 1: 2015/16 School Board Expenditures in Total, by Region and by School Boards Visited ($ million)
Source of data: Ministry of Education

		Region		School Boards Visited			
Expense Categories	All School Boards	Northern Boards	Southern Boards	Halton Catholic	Hamilton-Wentworth	Hastings and Prince Edward	Toronto Catholic
Salaries, Wages and Benefits	19,457	1,286	18,171	290	466	153	915
Supplies and Services[1]	2,059	174	1,885	37	48	17	89
Fees and Contractual Services[1]	1,290	141	1,149	12	23	15	40
Amortization[2] and Loss on Disposal of Assets[3]	1,100	94	1,006	16	35	7	49
Interest Charges on Capital[3]	433	29	404	10	7	2	17
Other Expenses[1]	299	32	267	5	7	1	9
Total Expenses	**24,638[3]**	**1,756**	**22,882**	**370**	**586**	**195**	**1,119**
% spent on employee-related costs	**79**	**73**	**79**	**78**	**80**	**79**	**82**
% spent on other goods and services	**15**	**20**	**14**	**15**	**13**	**17**	**12**
% spent on capital-related charges	**6**	**7**	**7**	**7**	**7**	**4**	**6**

1. Represents purchases of goods and services for school boards.
2. Amortization is the process of expensing the cost of an asset, such as a building, over its projected life.
3. Capital-related charges

funded education system that helps develop new generations of confident, capable and caring citizens.

Key documents for school boards' long-term planning and oversight include a multi-year strategic plan, a board improvement plan for student achievement and well-being, and school improvement plans, each of which is described below.

Multi-Year Strategic Plan

The *Education Act, 1990* requires all school boards to have a multi-year plan of three years or longer that is aimed at:

- promoting student achievement and well-being;
- promoting a positive school climate that is inclusive and accepting of all pupils;
- promoting the prevention of bullying;
- ensuring effective stewardship of board resources; and
- delivering effective and appropriate education to its students.

School board trustees are required to annually review the plan with the director of education. The plan must include measures that direct resources toward improving student outcomes that fall below key provincial goals such as: that 75% of students achieve the provincial Education Quality and Accountability Office (EQAO) standard for Grades 3 and 6, and that 85% of secondary school students graduate within five years of starting Grade 9. Each board is required to report to the public and to its employees on its progress in implementing the strategic plan.

The legislation also requires school boards to conduct surveys of staff, students and their parents or guardians at least once every two years to measure the effectiveness of policies developed to promote a positive school climate of inclusivity and bullying prevention.

Board Improvement Plan for Student Achievement

The Ministry requires each board to have a Board Improvement Plan for Student Achievement (BIPSA) to support the multi-year strategic plan. The plan focuses on identifying specific, measurable, attainable and relevant student achievement goals through comprehensive needs assessment of student strengths and learning needs. For example, one school board had a goal of reducing the gender gap for Grade 6 EQAO writing from 11% to 3% by June 2016 through targeted, evidence-based teaching strategies, such as small group instruction focused on writing. Boards are expected to track progress against these goals.

As part of the BIPSA, teachers are expected to look for evidence of improvement in student achievement in the areas identified by the plan. Where improvement is not visible, teachers are expected to adjust the method of instruction to bring about the intended outcomes through various evidence-based teaching strategies, such as presenting new material in small steps with student practice after each step, and instruction in smaller groups.

Annual School Improvement Plan

The Ministry recommends all schools develop an annual school improvement plan. This plan is developed by the principal in consultation with teachers that sets out the changes a school needs to make to improve student achievement, and shows how and when these changes will be made. Superintendents are responsible for ensuring that all schools submit school improvement plans based on accurate information to the board, such as student achievement data and summaries of responses to parent surveys. Superintendents must also ensure that professional development of school staff focuses on helping schools achieve their improvement goals, and they must monitor implementation of school improvement plans.

2.6 Measuring Student Achievement

2.6.1 Student Performance Indicators

The main measures used by the Ministry to gauge student performance include:

- the results of province-wide assessments on nine standard tests conducted annually by the Education Quality and Accountability Office (EQAO) to assess reading, writing, and math skills for students in Grades 3, 6, and 9, and literacy skills through the Ontario Secondary School Literacy Test (OSSLT) for students in Grade 10;
- the percentage of students who graduate high school in four years and in five years; and
- the number of course credits students are able to accumulate by the end of Grades 10 and 11.

2.6.2 Comparison of Latest Performance Results for 2015/16

For the province overall, performance results for student achievement have generally met provincial targets, except in the area of Grades 3, 6, and 9 (applied only) mathematics and Grade 3 reading and writing, as shown in **Figure 2**. Of the four boards we visited, Halton Catholic had the best performance results among those four boards.

2.7 Special Education

Students can receive special-education supports and services whether they have been formally identified or not. Formal identification is performed by each school board's Identification, Placement, and Review Committee (IPRC). These committees identify a student's strengths and needs based on assessment information available, determine the student's exceptionality and recommend appropriate placement, such as in a special-education class or a regular classroom. The committees review their decisions annually, unless the parents agree to waive the annual review. Individual Education

Figure 2: 2015/16 Student Achievement Results, by Region and by School Boards Visited

Source: Ministry of Education, and the Education Quality and Accountability Office (EQAO)

			Results by Region (%)		Results for School Boards Visited (%)			
Performance Indicator	Target (%)	All School Boards (%)	Northern Boards[1]	Southern Boards[1]	Halton Catholic	Hamilton-Wentworth	Hastings and Prince Edward	Toronto Catholic[2]
EQAO Results[3,4]								
Grade 3 Reading	75	72	67	**75**	**85**	68	61	71
Grade 3 Writing	75	74	69	**77**	**88**	66	63	**81**
Grade 3 Math	75	63	59	65	**79**	52	51	65
Grade 6 Reading	75	**81**	**80**	**84**	**89**	**77**	**75**	**80**
Grade 6 Writing	75	**80**	**75**	**82**	**90**	**76**	67	**82**
Grade 6 Math	75	50	50	54	65	40	36	53
Grade 9 Academic Math	75	**83**	**77**	**84**	**89**	**81**	**81**	**84**
Grade 9 Applied Math	75	45	44	49	56	40	53	46
Ontario Secondary School Literacy Test[5] (OSSLT)	75	**76**	71	**77**	**85**	67	61	71
Graduation Rate[4,6]								
4-Year (cohort 2011/12)	n/a	80	74	82	90	70	70	84
5-Year (cohort 2011/12)	85	**86**	82	**88**	**92**	79	76	**90**
Credit Accumulation[7]								
Grade 10	n/a	79	79	80	85	63	56	78
Grade 11	n/a	82	79	82	92	71	70	82

1. Represents the average results for boards in that region.
2. 2014/15 EQAO results for Grades 3 and 6 as elementary schools in the Toronto Catholic board did not participate in 2015/16 due to labour issues.
3. EQAO results measure percentage of students who wrote the exams and achieved a level 3 or 4—equivalent to a B grade or better.
4. Bolded results meet or exceed the provincial target.
5. OSSLT results have been combined for all writers.
6. The four-year graduation rate is based on students who began Grade 9 in 2011/12 and graduated by 2014/15, and the five-year graduation rate is based on students who began Grade 9 in 2011/12 and graduated by 2015/16.
7. Percentage of students who successfully complete 16 or more credits by end of Grade 10 and 23 or more credits by end of Grade 11.

Plans (IEPs) are developed for all special-needs students who have been identified by the IPRC. An IEP identifies the student's specific learning expectations and outlines how the school will address these expectations through appropriate accommodations, program modifications and/or alternative programs, as well as specific instructional and assessment strategies.

Figure 3 contains key statistics regarding students with special-education needs at the four school boards we visited.

3.0 Audit Objective and Scope

Our objective was to assess whether select Ontario district school boards in southern Ontario had effective systems and procedures in place to ensure that:

- their use of operating funding from the Ministry of Education (Ministry) complies with legislation, government directives and transfer payment funding arrangements and is achieving desired education outcomes;
- resources are acquired with due regard for economy and are used efficiently; and
- operational effectiveness is measured, assessed and reported on publicly.

Before starting our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 2**). These criteria were established based on a review of applicable legislation, directives, policies and procedures, internal and external studies, and best practices. Senior management at the Ministry and school boards we visited reviewed and agreed with the suitability of our objective and related criteria.

We focused on activities of the school boards in the five-year period ending in 2016/17.

We conducted the audit between December 1, 2016 and July 31, 2017, and obtained written representation from the school boards on November 17, 2017 that they have provided us with all the information they are aware of that could significantly affect the findings or the conclusion of this report.

This audit focuses on four school boards in southern Ontario. Southern Ontario is the region generally south of North Bay. School boards in southern Ontario receive 93% of the operating funds allocated by the Ministry for elementary and secondary education and account for 95% of students enrolled in provincially funded schools in Ontario. The four school boards selected for

Figure 3: Number of Students Receiving Special-Needs Services (Excluding Gifted Students) at School Boards Visited

Source of data: Ministry of Education, Toronto Catholic District School Board, Hamilton-Wentworth District School Board, Halton Catholic District School Board, Hastings and Prince Edward District School Board

School Board	Date of Special Educational Data	Students Receiving Special-Needs Services (A)	Special-Needs Students Identified through an IPRC* (B)	% of Special-Needs Students Identified through an IPRC* (B/A)	Avg. Daily Enrolment for 2016/17 (All Students) (C)	Special Education Students as % of All Students (A/C)
Halton Catholic	June 2017	3,905	2,965	76	33,300	12
Hamilton-Wentworth	May 2017	12,668	3,299	26	49,200	26
Hastings and Prince Edward	June 2017	4,000	1,671	42	14,900	27
Toronto Catholic	March 2017	14,738	6,640	45	90,600	16

* Identification, Placement, and Review Committee

detailed review were selected on the basis of the relationship between instructional costs per student and student performance results over a five-year period (2011/12 to 2015/16). We picked an equal number of public and Catholic boards, with various population densities (urban only, and urban and rural mix) across various regions in southern Ontario. See **Appendix 3** for the five-year trend in instructional costs per student and student achievement.

The four boards reviewed were:

- Halton Catholic District School Board (Halton Catholic)
- Hamilton-Wentworth District School Board (Hamilton-Wentworth)
- Hastings and Prince Edward District School Board (Hastings and Prince Edward)
- Toronto Catholic District School Board (Toronto Catholic)

Figure 4 shows student enrolment, funding allocated by the Ministry and expenditures for the 2015/16 school year for these four boards, the latest school year for which both funding and expenditure information was available at the time of our audit.

We did our work primarily at the four boards selected for the audit. In conducting our audit work, we conducted detailed testing of the financial and operational records, and interviewed senior staff of the school boards. As well, we met with a representative of the Council of Senior Business Officials (COSBO), which comprises school board superintendents of business, to understand operational and financial issues that boards face, and to discuss collaboration among school boards on best practices and group purchasing arrangements.

We also met with the Educational Computing Network of Ontario (ECNO) and Ontario Education Collaborative Marketplace (OECM) to discuss challenges to and advantages of collaboration on information systems and procurement of goods and services. In addition, we spoke with the School Boards Co-operative Inc. (SBCI) about challenges faced by schools boards with the increase in employee sick days. SBCI is a not-for-profit co-operative owned by Ontario school boards that provides advice and guidance on attendance/disability management, Workplace Safety and Insurance Board claims management and actuarial services. It also analyzes school board sick leave data on a standard basis to enable comparison among boards.

Further, to gain the perspective of stakeholders, we also spoke with representatives from three teacher unions (the Elementary Teachers' Federation of Ontario, the Ontario English Catholic Teachers' Association, and the Ontario Secondary Schools Teachers' Federation) and three trustees associations (the Ontario Catholic School Trustees' Association, the Ontario Public School Boards' Association, and Association des conseils scolaires des ecoles publiques de l'Ontario, which represents French-language public school boards).

We also surveyed all 72 school boards to obtain information on their use of funding for special purposes. Thirty-three school boards responded to our survey (a 46% response rate).

In addition, we reviewed relevant audit reports issued by the Province's Internal Audit Division and audit reports issued by the regional internal audit teams for all four boards to identify areas of risk and inform the scope and extent of our audit work.

This audit on school boards' management of financial and human resources complements the audit we conducted on Ministry funding and oversight of school boards in **Chapter 3, Section 3.08**. That report covers areas including allocation of funding to school boards, review of the funding formula, and verification of student enrolment.

Figure 4: Funding, Expenditures and Student Enrolment in 2015/16 for Ontario School Boards

Source of data: Ministry of Education

	# of School Boards	# of Schools (March 2016)	Grants for Student Needs (GSN) Funding ($ million)	Average Daily Enrolment (Funded Pupils)	GSN Funding Per Student	Expenditures ($ million)	Average Daily Enrolment (All Students)[1]	Per Student Expenses ($)
Province-Wide	**72**	**4,590**	**22,587.0[2]**	**1,956,600**	**11,500**	**24,638.4[2]**	**1,970,300**	**12,500**
Northern Boards	22	461	1,563.2	101,500	15,400	1,756.0	104,700	16,800
Southern Boards	50	4,129	21,023.8	1,855,100	11,300	22,882.4	1,865,600	12,300
Four Boards Visited	**4**	**412**	**2,085.1**	**184,700**	**11,400**	**2,269.9**	**186,300**	**12,200**
Halton Catholic		55	336.6	32,300	10,400	369.9	32,400	11,400
Hamilton-Wentworth		106	536.3	48,700	11,000	586.2	48,900	12,000
Hastings and Prince Edward		47	179.8	14,700	12,200	195.0	14,900	13,100
Toronto Catholic		204	1,032.4	89,000	11,600	1,118.8	90,100	12,400

1. Enrolment figures for all students include students who pay tuition, such as foreign students.
2. School boards report the total amount of expenses incurred from all sources of funding, not only what is provided by the Ministry. In 2015/16, school boards' income from sources other than the Ministry and Education Property Taxes totalled $2 billion. Hence, school board expenses totalled $24.6 billion compared to $22.6 billion in GSN funding.

4.0 Detailed Audit Observations

4.1 Significant Increase in Sick Days Causing Financial and Resource Allocation Pressures for Boards

4.1.1 Sick Days for School Board Employees Up 29% over the Last Five Years, Causing Financial Pressures for School Boards

A study commissioned by school boards found that over a five-year period, the average number of sick days per school board employee increased 29% overall, from nine days in the 2011/12 school year to 11.6 days in the 2015/16 school year, as shown in **Figure 5**. This study excludes absences related to WSIB and long-term disability benefits. The study was conducted by School Boards' Co-operative Inc. (SBCI), a not-for-profit co-operative owned by Ontario school boards that provides advice and guidance on attendance issues.

The Toronto Catholic board did not participate in the SBCI study as the board was not a member of the organization at the time. However, its own method of tracking sick days also showed an 11% increase in sick days from 2011/12 to 2015/16 for all employees in the school board.

According to the study, the average number of sick days has increased province-wide for each employee group (see **Figure 6**). Custodians/maintenance employees and educational assistants had the highest average number of sick days in 2015/16 (more than 16 days), and educational assistants and early childhood educators had the largest increase in the average number of sick days with 37% and 41% respectively. Two of the four boards we visited experienced increases in sick days for each of their employee groups. All of the boards we visited told us that changes in the sick leave plan contributed to the increases. Representatives of the various school board trustee associations we spoke with echoed this view. Changes to the sick leave plans are discussed in **Section 4.1.3**.

According to some boards, sick days for custodial or maintenance workers are typically higher due to the physical nature of the job, and education assistants are more susceptible to getting sick because they have closer physical contact with students.

For comparative purposes, we obtained sick day data for employees working in Provincial Schools—these are schools for the deaf or blind that are operated directly by the Ministry—and noted that employees working at the Provincial Schools reported a lower average use of sick days as compared with school board employees in every employee group in the 2015/16 school year. For example: 7.1 days versus 9.6 days for secondary

Figure 5: Average Sick Days for Ontario School Board Employees, 2011/12–2015/16
Source of data: School Boards Co-operative Inc. (SBCI), Toronto Catholic District School Board

	2011/12	2012/13	2013/14	2014/15	2015/16	% Change in Avg. Sick Days Over 5 Years
All boards participating in study[1]	8.99	8.78	9.73	10.56	11.56	29
For the Boards Visited						
Halton Catholic	11.16	9.73	10.19	10.86	11.03	(1)
Hamilton-Wentworth	9.54	8.35	12.28	13.24	13.39	40
Hastings and Prince Edward	9.54	9.12	n/a[2]	10.98	11.61	22
Toronto Catholic	12.80	11.50	11.70	13.10	14.20	11

1. The number of school boards participating in the SBCI study increased from 49 in 2010/11 to 56 in 2015/16. Toronto Catholic Board did not participate in the study, but prepared its own sick-days data.
2. School board did not participate in SBCI study in 2013/14.

Figure 6: Sick Day Trends by Employee Group, 2011/12–2015/16

Source of data: School Boards Co-operative Inc. (SBCI), Toronto Catholic District School Board

	All Boards Participating in Study[1]			Halton Catholic			Hamilton-Wentworth			Hastings and Prince Edward			Toronto Catholic[1]		
Employee	Avg. # of Sick Days		%	Avg. # of Sick Days		%	Avg. # of Sick Days		%	Avg. # of Sick Days		%	Avg. # of Sick Days		%
Type	2011/12	2015/16	Change	2011/12	2015/16	Change	2011/12	2015/16	Change	2011/12	2015/16	Change	2011/12	2015/16	Change
Custodians/ Maintenance	13.38	16.51	23	12.62	11.12	(12)	16.08	24.04	50	11.13	12.97	17	15.30	14.20	(7)
Educational Assistants	11.37	16.03	41	11.70	15.95	36	12.85	19.85	54	13.05	14.78	13	15.60	20.70	33
Early Childhood Educators	9.83[2]	13.42	37	9.16[2]	12.25	34	13.93[2]	18.09	30	n/a[3]	15.69	n/a[3]	n/a[2]	n/a[2]	n/a[3]
Elementary Teachers	8.78	11.32	29	11.60	10.88	(6)	9.19	12.01	31	9.81	12.43	27	13.90	14.00	1
Secondary Teachers	7.66	9.61	26	11.31	9.80	(13)	7.86	10.23	30	8.02	10.19	27	11.10	12.20	10
Other School Board Employees	7.26	8.31	15	8.88	9.00	1	6.32	8.58	36	7.07	7.43	4	9.50	12.80	35

1. The number of school boards participating in the SBCI study increased from 49 in 2010/11 to 56 in 2015/16. Toronto Catholic did not participate in the study, but prepared its own sick-days data.
2. Data for early childhood educators available from 2013/14 to 2015/16 only. Data for Toronto Catholic unavailable.
3. Data available for only two school years. Not enough to show a trend.

teachers; 9.7 days versus 14.8 days for educational assistants; and 9.8 days versus 16.5 days for custodial workers.

4.1.2 Employee Absenteeism Costs the Education System Money

The SBCI study found that for the five-year period the overall sick leave paid as a percentage of payroll increased from an average of 4.22% for the 2011/12 school year to 5.28% for the 2015/16 school year—an increase of 25%.

Absenteeism costs include both direct and indirect costs. The direct costs of absenteeism are defined as the direct salary costs of employees off sick and the cost of paying for replacement workers, such as substitute teachers. These costs result in less funds being available for student services. For the 2015/16 school year, salaries paid to absent board employees for sick days for three of the four school boards we visited that participated in the SBCI study totalled $42.7 million, as shown in **Figure 7**. For the same school year, based on Toronto Catholic's records, this board paid $48.8 million to employees who were off sick.

For the four boards combined, the additional costs of substitute teachers totalled $52.3 million in 2015/16, for an increase of 17%, from 2011/12 to 2015/16. However, the costs of substitute teachers do not solely relate to replacing teachers who are off sick, but also replacing those attending work-related activities, such as professional development and field trips.

Indirect costs related to absenteeism include the time to organize temporary or replacement workers, management time, reduced productivity and decreased morale for both staff and students. The SBCI study did not quantify such indirect costs.

4.1.3 School Boards Have Been Ineffective in Addressing the Increase in Sick Days

According to SBCI, a number of factors prevent boards from effectively managing absenteeism, including the design of the centrally negotiated sick leave plan, lack of attendance support programs, a lack of clear accountability for monitoring sick days, and a lack of commitment from the senior management of boards. The study recommended that senior board management increase commitment to and accountability for managing the problem, including developing an attendance support program with union collaboration, and instituting timely and accurate absence reporting and early intervention for return to work.

Sick leave plans in the education sector were changed during the 2012 central bargaining process. Prior to the 2012/13 school year, teachers were allowed 20 sick days per year paid at 100% and were able to carry them forward and get paid for any unused sick days (up to 200 unused sick days) at retirement, something known as a retirement gratuity. Union contracts since the 2012

Figure 7: Salary Paid to Absent Employees for Sick Days at School Boards Visited ($ million)

Source of data: School Boards Co-operative Inc. (SBCI)

School Board	2011/12	2012/13	2013/14	2014/15	2015/16	% Increase in Cost of Absent School Board Employees Over 5 Years
Halton Catholic	9.5	9.9	11.1	11.8	12.1	27
Hamilton-Wentworth	16.7	14.6	21.5	22.7	23.4	40
Hastings and Prince Edward	6.1	5.7	n/a*	6.9	7.2	18
Total	**32.3**	**30.2**	**n/a**	**41.4**	**42.7**	**32**

Note: Toronto Catholic did not participate in the SBCI study.

* School board did not participate in SBCI study in 2013/14

central bargaining process include a provision that, on an annual basis, all school board employees are allowed 131 days on a sick leave/disability plan: 11 days paid at 100% plus 120 days paid at 90%. Any employees who had banked sick days prior to 2012 are eligible to be paid out at retirement for those banked days or can choose to cash out earlier at a discounted rate. In comparison, short-term sick leave/disability plans for other public servants are less generous, as shown in **Figure 8**.

All three trustee associations we spoke with agreed that the new sick leave plan that allows education-sector workers, including teachers, up to 131 days (11 days at 100% pay and 120 days at 90% pay) was contributing to the increase in sick days taken. The associations commented that 90% pay is not a penalty when you factor in cost savings for travel and meals. One trustee association questioned why the teachers are getting 131 sick days when there are only 194 school days in a year, allowing a teacher to use sick leave benefits for up to two-thirds of each school year. Some trustee associations told us that since education-sector workers lost the ability to bank sick days, they were more likely to use the sick leave that they would no longer be able to bank. The Halton Catholic board also told us that prior to 2012, its staff could not have unused sick days paid out to them at retirement according to their local union agreements. So after the harmonization happened through the central bargaining process in 2012, it acquired a much more expensive and generous short-term sick leave/disability plan.

A representative of the Council of Senior Business Officials told us that when retirement gratuities disappeared, the unions negotiated that attendance support programs, designed to reduce employee sick days, could not be enhanced. We found that under some collective agreements, employees are required to provide medical confirmation for absences of five consecutive working days or longer. All four boards we visited were not requesting a doctor's note for absences less than five consecutive days. Under the Province's proposed legislation, *Bill 148, Fair Workplaces, Better Jobs Act, 2017*, employers such as school boards will be prohibited from requesting a doctor's note from an employee for the first ten days he/she is absent in the year, starting January 2018.

Except for Toronto Catholic, the school boards we visited had a formal attendance support program. The three boards have a dedicated attendance support supervisor and various procedures aimed at addressing employee absenteeism, such as meetings with employees when they miss 10 or more accumulated days of work, and they offer workplace accommodation to encourage an earlier return to work. With the maximum number of sick days for school board employees being 11 days, it would be reasonable for boards to reach out to employees earlier for attendance support purposes.

Figure 8: Short-Term Sick Leave/Disability Plans for Various School Board and Government Employee Groups, June 2017

Source of data: Union contracts and Treasury Board Secretariat

	Short-Term Sickness Plan Details		
Employees	Total Days	Days Paid at 100%	Days Paid at <100%
School Board Employees	131	11	120 at 90%
Provincial Schools operated directly by the government (e.g., schools for the deaf)			
• Teachers	131	11	120 at 90%
• Education Assistants and Custodial/Maintenace Staff	130	6	124 at 75%
Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO)	130	6	124 at 75%
Ontario Public Service Employees Union (OPSEU)	130	6	124 at 75%

RECOMMENDATION 1

To reduce the rising direct and indirect costs associated with sick days, we recommend that school boards develop and implement effective attendance support programs that can include timely and accurate absence reporting, tracking and data analysis, and early identification of illness or injury to allow for early intervention for the safe return to work.

RESPONSE FROM SCHOOL BOARDS

School boards agree that attendance management has been an area of concern. Three of the four boards plan to review their current attendance support programs and look for areas of improvement to better manage the increase in employee sick days. The fourth, Toronto Catholic, has started early implementation of an attendance support program in collaboration with School Boards Co-operative Inc.

4.2 Opportunities to Improve Teaching are Missed Because of Delays in Teacher Performance Appraisals

High-quality teaching is essential to improving student outcomes and reducing gaps in student achievement. Performance appraisals are used to identify areas in which teachers can improve and to highlight professional learning opportunities for teachers that can then benefit students in the classroom.

According to the *Education Act, 1990*, new teachers are part of the New Teacher Induction Program. The purpose of the New Teacher Induction Program is to provide support and professional development for the new teachers in the areas of classroom management, curriculum implementation, and instructional strategies. These new teachers must be appraised by the principal or vice-principal twice within the first 12 months of their hiring date. If a teacher does not receive two satisfactory appraisals during the first 12 months, he or she will be re-appraised during the next 12 months. Those who are unsuccessful in completing the New Teacher Induction Program cannot continue in the profession. After 24 months of teaching, the teacher is considered to be experienced. Experienced teachers must be appraised by the principal or vice-principal every five years after they complete their initial new-teacher appraisals.

Principals and vice-principals are to be appraised once every five years from their hiring date.

4.2.1 Performance Appraisals for New Teachers Not All Completed within 12 Months

None of the four boards we visited completed the two mandatory appraisals for all new teachers within 12 months of being hired, as required. Three of the boards we visited completed the two appraisals for at least 90% of their new teachers within the first two years. One of the boards struggled to meet the standard of performing two performance appraisals within 12 months for newly hired teachers. As seen in **Figure 9**, at Hamilton-Wentworth, more than 35% of new teachers were appraised after they had already completed their first year of teaching. In addition, we noted cases where teachers who had not been assessed twice within 24 months remained as new teachers until the two appraisals were completed.

The New Teacher Induction Program is intended to provide support and feedback on their performance so they can receive the required professional development for improvement. Lack of timely appraisals impacts the new teachers' ability to receive feedback and seek professional development required to be successful in the profession. For the 2016/17 school year, the Ministry provided $13.7 million of restricted funding to Ontario school boards to be used only on the New Teacher Induction Program.

Figure 9: Timeliness of Appraisals for New Teachers at the Boards Visited, as of June 30, 2017
Source of data: School boards visited

		% of New Teachers Who had Two Appraisals Completed				
School Board	# of New Teachers Hired (Sep. 1, 2011–June 30, 2015)	Within 12 Months of Being Hired (Requirement)	Within 12–24 Months of Being Hired	Within 24–36 Months of Being Hired	Longer Than 36 Months After Hiring	% of New Teachers Not Assessed as of June 30, 2017
Halton Catholic	334	79	11	<1	<1	9
Hamilton-Wentworth	183	64	17	5	1	13
Hastings and Prince Edward	53	79	21	0	0	0
Toronto Catholic*	974	89	7	1	0	3

* Appraisal data as of April 30, 2017.

4.2.2 Majority of Experienced Teachers Were Appraised within Last Five Years

Three of the four school boards we visited completed at least 90% of the appraisals of experienced teachers within the required five-year period. As shown in **Figure 10**, the completion rate for the boards ranged from 76% at Hamilton-Wentworth to 97% at Hastings and Prince Edward. For all four boards visited, the previously completed appraisal was not always tracked in the system if the last appraisal was completed more than five years ago. Therefore, for some teachers it was not possible to know how much time had elapsed since their last appraisal.

4.2.3 Almost All Teachers Rated Satisfactory

One school board told us that the teacher performance appraisal process is time-consuming but effective in providing feedback to teachers. Another board told us that union involvement in isolated cases can adversely impact the length of the process and the integrity of the performance rating.

The typical teacher appraisal process requires one meeting prior to classroom observation, one in-classroom observation session, one post-observation meeting, and preparation of the written appraisal. Some teachers request union representatives to be present for performance appraisal review meetings; typically teachers who have had unsatisfactory performance appraisals. The scheduling and co-ordinating of review meetings with union representatives adds to the length of the process.

According to the Ministry's Teacher Performance Appraisal manual, an experienced teacher can be rated satisfactory or unsatisfactory. If an experienced teacher is rated unsatisfactory, the principal must create an improvement plan in collaboration with the teacher and perform another performance appraisal within 60 days. If the second appraisal is also deemed unsatisfactory, the teacher is put on a review status and a third appraisal is required within 120 days of the review status notification. If the third appraisal results in an unsatisfactory rating, the teacher is recommended to the board of trustees for termination. Based on our discussion with the four boards, teachers' unions become heavily involved once a teacher receives an unsatisfactory rating. Any unsatisfactory rating for an experienced teacher leads to additional administrative work, meetings with unions and additional performance appraisals for the principal. One board indicated that grievances often follow an unsatisfactory rating. These grievances more often than not are resolved at arbitration, which again is a costly and time-consuming process.

The value of teacher appraisals is reduced because all classroom observations occur on a predetermined date and teachers are able to select the lessons for the evaluation in advance. Teachers

Figure 10: Timeliness of Appraisals for Experienced Teachers at the Boards Visited, as of June 30, 2017
Source of data: School boards visited

School Board	# of Experienced Teachers with at Least 5 Years Experience	% Evaluated Within 5 Years (Requirement)	% Who Have Been Evaluated in 7 Years	% Who Have Not Been Evaluated in 7–10 Years	% Who Have Not Been Evaluated in More Than 10 Years or No Evaluation Date Available
Halton Catholic	1,819	93	5	1	1
Hamilton-Wentworth	2,575	76	5	1	18
Hastings and Prince Edward	740	97	3	0	0
Toronto Catholic*	4,321	90	7	2	1

* Appraisal data as of April 30, 2017.

are most likely to prepare more and select their strongest subject matter for the evaluation session, so it may not be a true representation of their teaching performance.

In the four boards we visited, fewer than 1% of the teachers received unsatisfactory ratings in their appraisals. One trustee association we spoke with told us they thought the percentage of teachers who should be given an unsatisfactory rating should be higher. We were told that principals hesitate to give unsatisfactory ratings unless they are working toward terminating a teacher. Over the last five years, three unsatisfactory teacher appraisals for experienced teachers at one board were overturned to satisfactory as part of grievance settlements with the teacher unions. Over the same period, this board only rated three other experienced teachers unsatisfactory.

The performance appraisal process is designed to identify those teachers who are underperforming and provide them with the necessary supports to improve. Therefore, the additional administration time to complete unsatisfactory reviews in these cases is not a good reason to avoid doing an appraisal or providing a satisfactory rating. If the teacher is not meeting expectations, the principal should give the teacher an appropriate rating and outline an improvement plan to help the teacher.

4.2.4 Principal and Vice-Principal Appraisals Were Not Completed On Time

For two of the four boards, there were cases where principals and vice-principals did not receive their performance appraisal within the five-year period. School boards are not ensuring that the performance of people in these key leadership positions is regularly evaluated. According to one board, a strong and committed principal can significantly impact student achievement at his or her school. The compliance rate for the timely completion of principal and vice-principal appraisals ranged from 68% at Hamilton-Wentworth to 98% at Hastings and Prince Edward.

4.2.5 Improvement Needed in Monitoring Implementation of School Improvement Plans

All schools are required to submit an annual school improvement plan to their school board that focuses on improving student achievement through evidence-based professional development of their teachers. Most schools are submitting their school improvement plans to their superintendents and reporting back on the training provided to the teachers. However, there was little evidence of review by superintendents to ensure that the training actually occurred in the areas identified through student achievement gaps. The boards also

do not monitor the impact of classroom teacher training on student achievement.

On a positive note, one of the boards visited, Halton Catholic, lists all of the school improvement plans on the board's website, leading to transparency. However, none of the boards provide results on the school improvement plans publicly.

4.2.6 No Guidance Is Provided for Superintendent Performance Appraisals

There are no requirements that superintendents' performance be evaluated. These senior officials are responsible for overseeing all school board operations. Their performance should be evaluated regularly, and they should receive feedback on areas in which they could improve. Based on our review of the four boards we visited, the directors of education were conducting ad hoc performance reviews of their superintendents. None of the boards visited had established guidelines for periodic performance appraisals of their superintendents.

In comparison, each board's director of education must be evaluated regularly by the board of trustees. Toronto Catholic and Hastings and Prince Edward boards evaluate their director's performance every two years, while Halton Catholic and Hamilton-Wentworth perform an annual review. For all four boards visited, the director submits a self-assessment and the trustees provide a final appraisal. At Halton Catholic and Toronto Catholic, all trustees provide a performance rating for the director in key areas, such as leadership, communication, and staff relations. The ratings are then summarized into an overall rating and results are provided to the director. At the other two boards, the trustees provide an overall assessment for the director without a performance rating.

RECOMMENDATION 2

To better ensure staff requiring additional training and/or assistance to be more effective in their job receive it, we recommend that school boards:

- put in place an effective performance appraisal system for all groups of employees, including superintendents; and
- complete performance evaluations as required.

RESPONSE FROM SCHOOL BOARDS

The school boards value the role that a timely and comprehensive teacher evaluation process plays in addressing instructional effectiveness.

With respect to evaluating superintendents, three school boards have committed to reviewing and implementing a periodic performance appraisal process. Halton Catholic committed to reviewing its current appraisal process for superintendents.

Toronto Catholic is also considering introduction of an appraisal process for non-union management and other employees.

All four school boards plan to review their current performance evaluation processes to identify areas for improvements that will ensure more timely completion of all employee appraisals.

RECOMMENDATION 3

To ensure teachers are receiving evidence-based professional development that focuses on student achievement, we recommend that school boards:

- have all schools complete the school improvement plans based on their student achievement results and achievement gaps;
- review and analyze all school improvement report-backs to reconcile the actual training to the school improvement plans; and
- monitor student achievement in the areas where professional development was provided to measure effectiveness of the training and report these results publically.

RESPONSE FROM SCHOOL BOARDS

School boards agree that school improvement plans should be completed and monitored to assess their effectiveness. The school boards agree that all school improvement plans should address achievement gaps and outline proposed training for staff to improve instructional effectiveness. The school boards plan to continue to utilize data analysis in order to identify student learning needs and existing learning achievement gaps.

School boards plan to continue using school visits by superintendents to focus on ensuring that local professional development is timely and appropriate in order to address the learning needs identified in the school improvement plans.

Hastings and Prince Edward plans to develop measures for effectiveness of training and will publicly report aggregate results. The other three boards plan to monitor the effectiveness of their professional development efforts and its impact on student achievement.

4.3 Allocation of Staffing Resources

4.3.1 Student Achievement Not Considered a Key Factor in Allocating Teachers

Each board is responsible for promoting student achievement and for effective stewardship of resources. Board management we spoke to at Toronto Catholic and Hamilton-Wentworth agreed that smaller class sizes lead to better outcomes for students than larger classes because teachers can give each student more attention. Similarly, a study by the Canadian Education Association, funded by the Ministry in 2010, found that teachers can teach more competently and effectively in smaller classes, and students can learn more academically and socially and be more engaged and less disruptive in smaller classes.

When it came to allocating teacher positions to schools, school board management at three of the four boards informed us that their decisions were primarily based on meeting provincial class size restrictions. The fourth board, Hamilton-Wentworth, used a differentiated staffing model for the 2015/16 school year that reduces average class sizes for schools with lower academic achievement. In Ontario, class size restrictions are the same for all students in the same grade, with the exception of special-education classes. We noted that the Quebec Government has proposed smaller class sizes for elementary students in disadvantaged areas (20 versus 26).

Staffing costs account for approximately 80% of boards' expenditures. The largest employee group is classroom teachers. Boards have little control over employee costs for teachers and other unionized education-sector employee groups because these costs are determined through central negotiations at the provincial level. As a result, boards that have smaller class sizes run the risk of going into a deficit, as happened in the Toronto Catholic board in 2014/15 (see **Section 4.6.1**)

4.3.2 Compliance with Class Size Restrictions

Class size restrictions for all grades that were in place at the time of our audit are outlined in a regulation to the *Education Act, 1990* (see **Figure 11**).

For the 2015/16 school year—the latest school year for which we had complete financial and non-financial information at the time of our audit—we reviewed class sizes as of September 2015 for all elementary school grades (kindergarten, Grades 1 to 3, and Grades 4 to 8). All four boards we visited were compliant with the class size regulations on the compliance date.

Based on data provided by school boards, we also reviewed class size averages for Grades 1 to 3 on two other days between October 31 and June 30 for each board. Based on our testing of these subsequent dates, we found that all four boards

Figure 11: Class Size Restrictions per Grade

Source of data: *Education Act, 1990*, O. Reg. 132/12, effective until June 29, 2017

Grade	Class Size Restrictions
Full Day Kindergarten (Junior and Senior Kindergarten)	• Average class size per school board not to exceed 26.
Primary classes (Grade 1–3)	• Maximum class size of 23 students. • At least 90% of classes in a school board should have 20 or fewer students.
Grade 4–8	• Regulation outlines average class size for 36 school boards ranging from 18.5 to 26.4. • Remaining 36 school boards are restricted to an average class size of 24.5 students per class.
Mixed classes (Primary and Grade 4–8)	• Maximum class size of 23 students.
Secondary school	• Average class size per school board not to exceed 22 students per class.

* Regulation maximum class sizes for Grades 4 to 8 for the four boards we visited: Halton Catholic, 25.2; Hamilton-Wentworth, 25.1; Hastings and Prince Edward, 24.32; Toronto Catholic, 25.7

exceeded the restriction that allows for only 10% of the boards' Grades 1 to 3 classes to exceed 20 students. The number of classes exceeding 20 students ranged from 14% to 29% for the four boards visited, but almost all of these Grades 1 to 3 classes were at or below the maximum size of 23 students.

4.3.3 Impact of Demographics on Student Achievement

The Ministry provides additional funding to school boards with the largest number of students who are at risk of poor academic achievement due to social and economic factors, including being from low-income households, having immigrated from a non-English-speaking country within the last five years, having parents with low levels of education, and living in single-parent households.

Using these factors, the Ministry calculates an Education Opportunities Index (EOI) value for each school. A higher EOI value means that students are experiencing fewer or lower educational opportunities, and a lower EOI value means that students are experiencing higher educational opportunities.

For the four boards visited as seen in **Figure 12**, we noted that school boards with proportionately more special-needs students and students from low-income families and with other social and economic risk factors, had lower student performance outcomes on average.

4.3.4 Boards Are Providing Other Supports to Schools with Lower Academic Achievement

On a positive note, all four boards visited informed us of additional supports they provide or plan to provide to schools that are struggling academically.

The Halton Catholic board identified its itinerant teacher and teaching consultant model as a key to its students' success. Itinerant teachers and teaching consultants are subject-matter experts who work full-time visiting each school once a week to offer instructional coaching to classroom teachers who request coaching or who are identified by the school principal to receive coaching. Hastings and Prince Edward also assigns teaching consultants to schools struggling academically to provide targeted professional learning. Based on statistics provided to the Ministry for the 2014/15 school year, there were over 1,200 teaching consultants in Ontario with a combined estimated salary of over $120 million annually.

As well, at the time of our audit, Toronto Catholic had a literacy intervention program for Grade 1 and 2 students in one-quarter of its elementary

Figure 12: Comparison of Demographic Factors and EQAO Results for the Four School Boards Visited, 2015/16 School Year

Source: Ministry of Education and the Education Quality and Accountability Office

	Province	Halton Catholic	Hamilton-Wentworth	Hastings and Prince Edward	Toronto Catholic[1]
Social and Economic Statistics (Median for the Board)					
Education Opportunities Index[2]	**14**	9	16	16	21
% of low income households (income below $43,546)	**18**	10	21	21	27
% of students with special needs	**15**	8	15	18	14
% of newcomers (who have been in Ontario for the last 5 years)	**2**	4	2	<1	9
2015/16 EQAO Results[3,4]					
# of EQAO tests where at least 75% of students achieved a passing grade	**4**	7	3	2	4
# of EQAO tests where the percentage of students who passed exceeded the provincial average	**n/a**	9	0	0	6

1. Used 2014/15 EQAO results for Grades 3 and 6 as Toronto Catholic board did not participate in 2015/16 EQAO testing.
2. A higher Education Opportunities Index (EOI) value means that students are experiencing fewer or lower educational opportunities, and a lower EOI value means that students are experiencing higher educational opportunities.
3. EQAO results measure percentage of students who wrote the exams and achieved a level 3 or 4—equivalent to a B grade or better. There are nine EQAO tests in total.
4. OSSLT results have been combined for first-time eligible and previously eligible writers.

schools that provides 60 minutes per day of additional support focused on reading skills to students for 16 weeks. Student achievement and socio-economic factors were used to identify recipients for these services.

At the time of our audit, Hamilton-Wentworth was planning to allocate additional reading specialists and strategically re-allocate principals and vice-principals to high-priority schools identified by socio-economic factors and low Early Development Instrument (EDI) scores, starting in the 2017/18 school year. EDI scores are based on questionnaires completed by kindergarten teachers across Canada, and they measure whether children are meeting age-appropriate developmental expectations. The goal is to provide additional resources to help students achieve developmental expectations by Grade 1.

RECOMMENDATION 4

In order to support student achievement and effective stewardship of resources, we recommend that school boards:

- where needed, allocate additional teacher and other supporting resources to schools with lower student achievement; and
- monitor the impact and effectiveness of the additional resources on student achievement and make adjustments where desired results are not achieved.

RESPONSE FROM SCHOOL BOARDS

School boards agree additional resources should be provided to schools with lower student achievement.

- Three boards plan to continue to provide additional resources to schools with lower academic achievement within the resources available. Halton Catholic plans to focus on

building teacher capacity at its board and continue using its teaching consultant model to provide support to schools that require it.

- All school boards are planning to monitor the impact and effectiveness of additional resources on student achievement and make adjustments as needed.

4.4 School Boards Redirecting Funding Intended for At-Risk Students and Students not Fluent in the Language of Instruction

4.4.1 Not All Funding Provided for At-Risk Students is Being Spent as Intended

The Ministry provides additional funds through the Learning Opportunities Grant (LOG) to school boards with the intention of helping students who have a higher risk of academic difficulty due to social and economic factors. These factors include low-income households, recent immigration, low parental education and single-parent households. The largest component of the LOG is not restricted, and boards have discretion over the programs and supports they offer. Examples of programs offered by school boards include breakfast programs, homework clubs, reading assistance programs, and individualized student support. But school boards can also use the funding for other unrelated purposes.

As seen in **Figure 13**, for the 2015/16 school year, Toronto Catholic used only 50% ($23.1 million) of the $46.5 million of its LOG funding for at-risk students, while the remaining funds were used to support a shortfall in teacher salaries and special-education funding. Although the board reallocated half of the LOG funding, it did spend more than the restricted requirement of $6.6 million on at-risk students.

According to a report supported by Toronto District School Board's Inner City Advisory Committee, the Toronto District School Board, which also serves the same area of the province, also redirected 42% ($61 million) of $144 million in total learning opportunities funding for the 2014/15 school year to cover shortfalls in teacher salaries and benefits, special-education and supply teacher costs. For the 2015/16 school year, the two Toronto boards accounted for $189.4 million or 38% of the overall LOG funding in the province. The majority of this funding to these two boards was unrestricted, with only 14% being restricted for at-risk students for Toronto Catholic and only 11% for Toronto District School Board.

We also noted that Hamilton-Wentworth underspent its learning opportunities allocation on at-risk students by $1.3 million. The school board's records indicated that some of the learning opportunities funding was spent on special-education services and music teachers.

Figure 13: Learning Opportunities Grant (LOG) Funding and Use by School Boards Visited, 2015/16 School Year
Source of data: Ministry of Education, and school boards visited

	Total LOG Funding ($ million)	Unrestricted ($ million)	Restricted ($ million)	% Restricted	Amount of Total LOG Funding Not Spent on Students at Risk ($ million)	% of Total LOG Funding Not Spent on Students at Risk
Province	500.3	350.5	149.8	30	n/a*	n/a*
Toronto Catholic	46.5	39.9	6.6	14	23.4	50
Hamilton-Wentworth	16.6	13.4	3.2	19	1.3	8
Hastings and Prince Edward	2.6	1.4	1.2	45	1.4	53
Halton Catholic	2.4	0.4	2.0	82	0.1	4

* Data not tracked by the Ministry.

Figure 14: Comparison of Elementary School Education Quality and Accountability Office (EQAO)[1] Results for Students Living in High- and Low-Income Areas, within the Toronto Catholic District School Board, 2012/13–2014/15[2]

Source of data: Toronto Catholic District School Board

	Average EQAO Pass Rates (%)					
	Grade 3			Grade 6		
	Reading	Writing	Math	Reading	Writing	Math
2014/15 School Year[3]						
High-income schools – average	81	89	78	88	90	68
Low-income schools – average	64	75	57	70	71	41
Achievement gap – difference	(17)	(14)	(21)	(18)	(19)	(27)
2013/14 School Year[3]						
High-income schools – average	86	91	84	84	88	70
Low-income schools – average	63	75	56	67	73	41
Achievement gap – difference	(23)	(16)	(28)	(17)	(15)	(29)
2012/13 School Year[3]						
High-income schools – average	80	87	82	84	86	73
Low-income schools – average	61	74	59	63	70	43
Achievement gap – difference	(19)	(13)	(23)	(21)	(16)	(30)

1. EQAO results measure percentage of students to achieve a level 3 or 4—equivalent to a B grade.
2. Toronto Catholic did not participate in 2015/16 EQAO testing due to labour issues.
3. We selected 25 schools in the lowest household income areas and 25 schools in the highest household income areas based on 2013 median household income. The same 50 schools are compared in all three years. This board has 168 elementary schools.

Of the four boards we visited, Toronto Catholic receives the highest amount of learning opportunities funding on a per student basis because it has a higher percentage of students at risk of poor academic achievement.

Although Toronto Catholic was not in violation of funding restrictions, we did note that elementary schools in neighbourhoods with lower household incomes have consistently performed poorly compared with schools in the higher-income neighbourhoods. As **Figure 14** shows, there is a significant achievement gap between high-income and low-income elementary schools at Toronto Catholic. This gap highlights the importance of using designated learning opportunities funding for its intended purpose of focusing on students at greater risk of poor academic achievement.

4.4.2 Some Funding Aimed at English-Language Learning Students Redirected, While These Students Continue Performing Below Provincial Standards

The Ministry provides an English as a Second Language/English Literacy Development (ESL/ELD) allocation. The funding is intended to provide language instruction to recent immigrants from non-English-speaking countries and to children whose language spoken most at home is neither English nor French. Despite the clear purpose for this funding, no portion of the ESL/ELD allocation is restricted for use on language instruction focused on recent immigrants.

As seen in **Figure 15**, for the 2015/16 school year, two of the boards we visited (Toronto Catholic and Halton Catholic) spent less than they were allocated for English-language learners. Toronto Catholic told us that it used $10 million of its

Figure 15: ESL/ELD[1] Funding and Use by Four School Boards Visited, 2015/16 School Year

Source of data: Ministry of Education, and School Boards visited

School Board	ESL/ELD Funding ($ million)	Amount Spent on Language Training of English Language Learners ($ million)	Amount Over/ (Under) Spent on ESL/ELD ($ million)	% of Total Funding Over/ (Under) Spent on ESL/ELD
Toronto Catholic	23.9	13.9	(10.0)	(42)
Hamilton-Wentworth[2]	4.6	4.6	0	0
Halton Catholic	3.0	2.7	(0.3)	(10)
Hastings and Prince Edward[3]	0.1	n/a	n/a	n/a

1. English as a Second Language/English Literacy Development.
2. This board also spent an additional $284,000 on Syrian newcomers funded through a transfer payment agreement.
3. Hastings and Prince Edward does not track how ESL/ELD funding is spent.

Figure 16: Toronto Catholic English-Language Learners Education Quality and Accountability Office (EQAO)[1] Results Compared with Board Average, 2011/12–2013/14

Source of data: Toronto Catholic District School Board

	EQAO Pass Rates (%)			
	Grade 3		Grade 6	
	Reading	Math	Reading[2]	Math[2]
2014/15 School Year				
All participating students	71	65	80	53
English-language learners	63	57	n/a	n/a
Achievement gap – difference	(8)	(8)	n/a	n/a
2013/14 School Year				
All participating students	73	68	75	55
English-language learners	62	61	57	41
Achievement gap – difference	(11)	(7)	(18)	(14)
2012/13 School Year				
All participating students	70	69	74	56
English-language learners	56	58	60	50
Achievement gap – difference	(14)	(11)	(14)	(6)
2011/12 School Year				
All participating students	68	70	73	59
English-language learners	57	55	55	46
Achievement gap – difference	(11)	(15)	(18)	(13)

1. EQAO results measure percentage of students to achieve a level 3 or 4—equivalent to a B grade.
2. EQAO data for Grade 6 reading and math for English-language learners is not available for the 2014/15 school year.

$23.9 million ESL/ELD funding to alleviate cost pressures created by underfunding of teacher salaries and higher special-education costs, despite the fact that in its 2014–18 Board Learning Improvement Plan, the board stated that "…our [EQAO performance] data indicate we will need to redouble our efforts with English-language learners and students with special needs." **Figure 16** shows that English-language learners at Toronto Catholic elementary schools have performed worse than

the board average for Grade 3 reading and math from 2011/12 to 2014/15 and Grade 6 reading and math from 2011/12 to 2013/14. These are the most recent EQAO results available for the Toronto Catholic board. In the 2016/17 school year, this school board continued to redirect ESL/ELD funding, as $10.8 million of its $25.3 million for ESL/ELD was used elsewhere.

4.4.3 Restricted Funds Used as Intended

At each of the boards we visited, we tested a sample of transactions for the last two years (2014/15 and 2015/16) from the following funding envelopes that restrict the use of the money to just that specific purpose:

- funding allocated for board and administration costs;
- the Learning Opportunities Grant, which is intended for students at risk of poor academic achievement; and
- the Special Education Grant, which is intended for students with special needs.

We examined whether the funds were being spent appropriately and were being reported as per Ministry guidelines. Our testing indicated that the school boards used the restricted portion of the funding it received for the purposes for which it was intended.

RECOMMENDATION 5

To ensure funding for specific education priorities are used for their intended purposes, we recommend that school boards focus the use of the funding on evidence-based areas where the at-risk students and English-language learners are performing below provincial standards.

RESPONSE FROM SCHOOL BOARDS

Toronto Catholic acknowledges the varying degrees of socio-economic needs across the Toronto region and its impact on the ability of at-risk students to meet achievement targets. The board plans to modify resource allocations, within its available resources, to areas where the needs are greatest. Hamilton-Wentworth plans to review funding for specific education priorities for at-risk students and English-language learners that are performing below provincial standards, especially for the Syrian newcomers.

Hastings and Prince Edward states that funding not restricted to a specific purpose will be used to improve student achievement in accordance with local priorities.

Halton Catholic spent 96% of LOG funding on students at risk and 90% of ESL/ELD funding on language training of ESL students, in the 2015/16 school year.

4.5 Special Education – Inequitable Resource Allocations and Long Wait Times for Services

4.5.1 Special-Needs Students Not Receiving Services Tailored to Their Needs

All four boards we visited had lists for special-needs students waiting to be assessed or served by professionals in the areas of psychology or speech and language. At all four boards, special-needs students are usually offered preliminary services in the suspected area of need by the classroom teacher in consultation with the specialists before they are formally assessed by the specialists. However, the assessments by specialists provide insight into a student's unique needs that allows the school board to devise a long-term plan for services that best meet the student's needs.

These assessments are used by each board's Identification, Placement and Review Committee (IPRC), which determines whether a student meets the criteria of a specific exceptionality, and recommends the appropriate placement for receiving special-needs supports and services.

A psychological assessment evaluates thinking, learning and behaviour, and a psycho-educational assessment focuses on identifying

a student's learning challenges. The assessment may include interviews, observation, testing and consultation with other professionals involved in a student's care.

None of the four boards we visited performed all specialist assessments in a timely manner, as shown in **Figure 17**. At three boards, a quarter to about a third of the students on the wait lists had been waiting for a psychological assessment for over a year. Some students had been on the wait lists for more than two years. Toronto Catholic had ten students on the psychological assessment wait list that had not received an assessment for over four years because, according to the board, other students were considered to have more need. By the end of June 2017, these ten students received their assessments.

In addition, two boards had students waiting more than a year for speech and language assessments. We noted that four students at Hastings and Prince Edward had been waiting for a speech and language assessment for more than three years. The board explained that these students were referred for issues that are not as impactful on classroom performance, such as lisp or mild articulation, and other more urgent assessments were completed first.

The school boards we visited and the trustees associations we spoke with told us that specialist assessments were not being done on a timely basis because it was difficult to recruit specialists due to the lack of specialists in the area, less competitive salaries offered by school boards, and in the case of Catholic and/or French boards, it was difficult to find specialists who meet the religious and/or language requirements to work in those boards.

4.5.2 Parents Pay for External Assessments to Avoid Wait Lists

At Halton Catholic, the number of external psychological assessments increased by 78%, from 354 in the 2012/13 school year to 631 in 2016/17. According to the board, this could be due to parents paying for a private assessment of their child in order to avoid wait times or being able to have the assessment done by a specialist of their choosing. Although these external assessments have to be reviewed by board staff before they are incorporated into student education plans or IPRC decisions, these special-needs students can receive services tailored to their unique needs sooner. The other three boards did not track external assessments.

Figure 17: Students Awaiting Specialist Assessments at Four School Boards Visited

Source of data: School boards visited

	Toronto Catholic	Hamilton-Wentworth	Halton Catholic	Hastings and Prince Edward
Psychological or Psychoeducational Assessments				
# on wait list	1,063	386	295	37
# on wait list longer than one year	292	134	70	0
% on wait list longer than one year	27	35	24	0
Median wait time on list (days)	n/a*	184	184	87
Longest wait time on the list (days)	1,876	853	768	199
Speech and Language Assessments				
# on wait list	645	97	48	235
# on wait list longer than one year	34	0	0	75
% on wait list longer than one year	5	0	0	32
Median wait time on list (days)	135	66	60	221
Longest wait time on the list (days)	1,400	199	197	1,528

* Since data is recorded manually by area psychologists at this board using different formats, average wait time was not readily available.

4.5.3 Most Boards Do Not Perform Summer Assessments to Reduce Wait Lists

Three of the four school boards we visited were not scheduling specialist assessments during the summer months when schools are not operating, something that would help reduce backlogs. Only Halton Catholic told us it conducted some psychological assessments in the summer, but only to the extent that funding was available. The collective agreement for only one of the other three boards restricted psychologists and speech-language pathologists to work only during the 10 months of the year when schools are operating.

4.5.4 Assessment Wait Times Differ Significantly, Even Among Schools in the Same Board

The wait times for specialist assessments can vary significantly based on the school the student attends. All four boards assign each of their specialists to a specific group of schools. The wait lists for Halton Catholic, Hamilton-Wentworth and Hastings and Prince Edward are consolidated electronically at the board level. Although the wait lists are centrally collated, the specialists only work to serve the schools assigned to them. The work was not shared among specialists with smaller workloads to reduce the backlogs. At the time of our audit work, six psychologists in the Hamilton-Wentworth board had more than 30 cases outstanding while six others had less than 10 assessments outstanding. In one area of Hamilton-Wentworth, at the time of our audit, one student had been waiting for more than two years (853 days) for an assessment, while in another school the longest wait was less than six months (164 days).

Toronto Catholic does not consolidate wait list information at the board level. It has 48 area psychologists responsible for performing psychological assessments, and they keep their own wait lists using different formats for the schools to which they are assigned. These lists are reported to the superintendent of special education twice a year. Because the wait-list information is not consolidated, the board cannot properly prioritize students for assessments. Based on our review of Toronto Catholic's wait list, the longest wait time per student is significantly different among the board's psychologists. The longest wait on one area psychologist's list was more than five years (1,876 days), while in another area the longest wait to be assessed was less than one month (23 days). The number of outstanding assessments also varied significantly between psychologists, as one psychologist in one area had 70 outstanding assessments while four other psychologists in different areas each had less than 10 assessments outstanding. Without a central consolidation of wait lists and reallocation of cases, services related to psychological assessments cannot be provided to students in an equitable and more timely manner.

RECOMMENDATION 6

To ensure all special-needs assessments are completed in a timely and equitable manner, we recommend that school boards:

- establish reasonable timelines for completing psychological, and speech and language assessments;
- have access to all assessments wait lists at the board level and use this information to reassign assessments to specialists who have smaller workloads;
- implement a plan to clear backlogs; and
- track use of external assessments to better gauge demand.

RESPONSE FROM SCHOOL BOARDS

All four boards agree that timely completion of special-needs assessments is critical in providing the most suitable services to special-needs students. School boards will review the tracking of their special-needs assessments in regards to timely completion within the context of current resources.

Toronto Catholic agrees that an appropriate case management system designed for educational purposes will ensure a more equitable delivery of services. Hamilton-Wentworth and Hastings and Prince Edward agree to use their centrally aggregated wait lists to reassign assessments to specialists in their boards with smaller workloads. Halton Catholic plans to continue reassigning assessments between specialists when needed.

Halton Catholic plans to reduce the wait times and review supports dedicated to this assessment process annually and allocate additional resources where needed. Toronto Catholic believes that a new case management system will allow for enhanced oversight and ensure a more equitable and timely delivery of services to students. The other two boards are planning to look at ways to eliminate the backlog.

Halton Catholic monitors the use of external assessments by special-needs students at the board. The other three boards plan to monitor this information moving forward.

4.5.5 Education Assistant Allocations to Schools Can Be Improved

For each of the school boards we visited, we compared the number of formally identified special-needs students to the number of education assistants—someone who assists students with disabilities in the classroom. We found that this ratio ranged from 5.6:1 at Hamilton-Wentworth to 7.4:1 at Halton Catholic for the boards we visited.

Each board first allocates educational assistants to the special-education classes where an educational assistant is required. The remaining educational assistants are allocated to schools—for their integrated classrooms—based on each board's individual allocation methods. All the boards we visited had ways of prioritizing educational assistant support to special-needs students in integrated classes. At Hamilton-Wentworth and Hastings and Prince Edward, a special-education consultant or co-ordinator, in consultation with the principal, determines the support a student needs. However, we found that the process is subjective and can lead to the inequitable allocation of educational assistants across schools.

In contrast, both Toronto Catholic and Halton Catholic use a standard scoring method to consider students' behaviours, ability to communicate and level of independence with daily activities, to determine the level of support needed, and assign educational assistants to each school. However, we noted that the actual allocation of educational assistants by Toronto Catholic does not match the level of support determined by the scoring tool. In the 2016/17 school year, around 50 (31%) of the elementary schools were either overstaffed or understaffed by more than one full-time educational assistant, when compared with the staffing levels calculated by the scoring tool. One school was overstaffed by four full-time educational assistants while another was understaffed by a similar amount.

The board stated that any drastic changes in staffing could result in additional pressures. School board officials told us that they hear from parents who want only one-on-one educational assistant support for their children. The board's goal is to avoid drastic changes in staffing and move educational assistants over time to match the model and avoid public backlash that comes with removing an educational assistant from any school.

4.5.6 Special-Needs Teachers and Staff are Often Assigned to Students with Exceptionalities They Do Not Specialize In

Each type of special-needs exceptionality presents unique challenges. By specializing in the student's exceptionality the teacher and educational assistants can provide services most suitable for the student.

The *Education Act, 1990* lists five general categories of exceptionalities that can apply to special-needs students: behavioural; communicational (autism and speech impairment); intellectual (mild intellectual and developmental disability);

physical; and multiple exceptionalities. In three of the four boards visited, teachers and education assistants assigned to special education classes are not required to have any specialized training other than basic special-education training.

In contrast, starting in the 2014/15 school year, Hamilton-Wentworth started hiring special-education teachers and educational assistants with additional training focused on students with autism and/or behavioural problems. A four- to five-year commitment is expected from the specialized staff to ensure continuity with students. Professional development is provided annually, focusing on those exceptionalities.

Hastings and Prince Edward requires educational assistants who are assigned to special education classes or students with complex needs to attend mandatory therapeutic crisis intervention training, which trains staff to help students learn constructive ways to handle crisis.

The boards we visited agreed that specialization in the area of exceptionality was desirable, especially when teaching students with autism or behavioural problems. All boards we visited indicated that they offer professional development training in relation to special-needs students, however participation by teachers is voluntary.

RECOMMENDATION 7

To ensure that special-education students are provided with support that best meets their needs, we recommend that school boards:

- implement objective measures to allocate staffing resources to special-education students based on their needs; and
- hire and train staff to ensure they are best equipped to provide support for the types of student exceptionalities to which they are assigned.

RESPONSE FROM SCHOOL BOARDS

Toronto Catholic plans to refine staff allocations through its objective assessment tool. Halton Catholic plans to continue utilizing its resource allocation process using an objective, transparent and equitable scoring and allocation tool. The other two boards will review the allocation of staffing resources and work to improve resource allocation processes, including staffing to special-education students based on their needs and within the allowable funding.

Hamilton-Wentworth plans to continue reviewing the assignment of specialized staff and provide ongoing training, to ensure staff understand and meet the needs of students. Toronto Catholic and Hastings and Prince Edward will continue to monitor and adjust support staff allocations to ensure proper matches due to the fluid movement of students between schools or school boards, as well as the ever-changing needs of students within schools. Halton Catholic plans to continue hiring non-teaching staff with specific qualifications such as board-certified behavior analysts who help build teacher capacity to support students with autism and behavioral strategies.

4.5.7 Impact of Special-Education Services is Not Measured or Reported

For the 2016/17 school year, the Ministry allocated $2.76 billion in special purpose grants for special-needs students across Ontario. However, the Ministry and the boards have not established key indicators to measure student improvement as a result of the specialized services provided by the funding, aside from monitoring EQAO results for special-education students.

All four boards visited use EQAO results for special-needs students and compare them year over year. Toronto Catholic also monitors EQAO results by each special-needs exceptionality type. However, comparatively a greater proportion of special-needs students do not write EQAO tests. For example, in 2015/16, 10% of special-needs students were exempted from the Grade 3 reading test compared to just 3% of all students combined. The school

boards we visited told us that EQAO testing may not be the best measure to assess effectiveness of special-needs services because it is not tracking progress for the same group of students. We noted that the EQAO office has the ability to track progress for a cohort of special-needs students, but school boards were not using this type of information.

We noted that boards are able to track a student's progress on their individual education plans and report cards. However, this information is not aggregated at the board level to assess whether special-education services are having the desired impact for special-needs students.

Further, we noted that school boards did not know what happened to their special education students once they left secondary school. According to the regulation on the identification and placement of exceptional students, the individual education plan for a student who is 14 years of age or older must contain a plan for the transition to post-secondary education, or the workplace, or to help the student live as independently as possible in the community. However, school boards do not have measures to assess the effectiveness of the transition plans because other than collecting data on applications for post-secondary education, the school boards do not conduct any other type of follow-up to track their students once they leave high school.

The four boards agreed that both academic and non-academic performance measures (post-secondary employment, community integration, self-sufficient) are needed to track the progress and improvement of special-needs students. However, currently no board is using non-academic measures for special-needs students.

RECOMMENDATION 8

To better ensure that the special-educational support services meet the needs of special-needs students, we recommend that school boards establish and publicly report on key academic and non-academic performance indicators to track student improvement for each type of exceptionality.

RESPONSE FROM SCHOOL BOARDS

Hastings and Prince Edward plans to develop aggregated reports of key academic and non-academic performance indicators, and will publicly report on student improvement by exceptionality in a manner that avoids privacy issues. The other three boards are looking to develop consistent measures that can be used to inform and influence the achievement of students receiving special-education services.

4.6 Oversight, Best Practices and Collaboration

4.6.1 Strategic Goals Not Measurable or Being Reported by School Boards

The Act requires all school boards to develop a three-year or longer multi-year plan focused on promoting student achievement and well-being, ensuring effective stewardship of board's resources, and delivering effective and appropriate education to students. The boards are required to publically report their progress in implementing the plan.

Student Achievement Goals Could Be Improved With Targets and Clear Timelines to Achieve the Goals

All four boards visited had strategic goals with performance indicators for student achievement and three of the four boards (except Hastings and Prince Edward) also had targets. Examples of good student achievement goals with performance indicators, targets and clear timelines, included:

- Halton Catholic had a clearly defined goal to increase the percentage of students meeting the provincial standard in EQAO reading assessments: from 80% to 85% for Grade 3 and from 85% to 90% for Grade 6 students by June 2016 from the 2013 EQAO results. The

board met the provincial targets but did not meet its own targets for improvement.

- Hamilton-Wentworth had a goal for all students to read by end of Grade 1, and a target that at least 75% of Grade 1 students achieve a B grade or better on their June 2017 report card. It would have been helpful to include baseline results to indicate the result upon which the board is trying to improve. Neither the goal nor the target was met.

For the other two boards, the strategic goals for student achievement could be improved. For example:

- Hasting and Prince Edward's goal is to increase graduation rates and reduce achievement gaps for students not yet at the provincial standard. This is a reasonable goal, but the board did not outline a clear timeline for reducing the gaps. Without outlining a targeted reduction in the achievement gap or a clear timeline for reducing the gap, the board will have difficulty assessing progress.
- Toronto Catholic's goal is to have its students meet or exceed the provincial average for all EQAO assessments in literacy and numeracy. However, the board did not identify where the board fell below the provincial average or a timeline for reaching the target.

Boards Unable to Identify Measurable and Reliable Indicators for Positive Culture and Student Well-Being

A recent review of York Region District School Board—commissioned by the Ministry following complaints—confirmed that when a school board does not successfully promote a culture of equity and inclusivity it can be very detrimental to a board's reputation and can lead to loss of public confidence. We noticed that the four boards visited had developed goals regarding a positive culture and well-being but had not identified measurable indicators and targets for their goal of promoting a positive culture and student well-being. For example, one board had a goal of creating welcoming, inclusive, safe and accepting learning environments that optimize students' potential. However, without specific, measurable, attainable and relevant indicators, it will be difficult for boards to assess progress on their goals regarding a positive culture and well-being.

Greater Focus Needed for Measuring and Reporting on Stewardship of Board's Resources

Three of the four boards (except Hamilton-Wentworth) had strategic goals directly aimed at effective stewardship of board resources. However, two of these three boards only identified a balanced budget as the target and did not have any other measurable indicators to assess progress towards the goals. Hastings and Prince Edward did not identify any targets for its effective stewardship of resources goal. Hamilton-Wentworth did not have any strategic goals addressing stewardship of resources, except for a goal of improving condition of school facilities. Effective management of a board's resources is fundamental to any successful school board.

Two Boards in Financial Recovery Plan Because of Difficulties in Managing Budgets

If a school board has an in-year deficit of greater than 1% of its operating funding allocation or an accumulated deficit, the Ministry may request the board to prepare a financial recovery plan. At the time of our audit, both Toronto Catholic and Hastings and Prince Edward boards were being monitored by the Ministry as the boards were working towards financial recovery.

At the end of the 2014/15 school year, Toronto Catholic had an accumulated deficit of $15.3 million and had entered into a three-year recovery plan. According to an external review, the key factors that contributed to the deficit were smaller average secondary class sizes than provincial standards leading to more secondary teachers than required, and employing more educational assistants in secondary schools than funded by the

Ministry. Based on our review, the school board is on target to eliminate the accumulated deficit during the 2017/18 school year. The board reduced costs by increasing secondary class sizes to the provincial standard, reducing the number of educational assistants, and by withdrawing the surplus from the employee benefits plan.

Hastings and Prince Edward had two consecutive years of in-year deficits in 2014/15 ($1.5 million) and 2015/16 ($2.5 million). The board went into a deficit position mainly due to a declining enrolment without strategically reducing its staffing to match the decline in enrolment. In the 2016/17 school year, the trustees approved two of the four school closures recommended by management. The two school closures and corresponding reduction in staffing has the board on track to eliminate the deficit by the 2018/19 school year.

Senior board officials at Toronto Catholic stated that management had presented options to their boards of trustees to reduce and eliminate their deficits before entering into a financial recovery plan. However, the trustees had voted down management's plan for reducing special-education costs, reducing staffing, or altering transportation policies aimed at reducing costs until forced by the Ministry's financial recovery plan.

Boards Not Publicly Reporting on Progress in Implementing Strategic Plans

We found that none of the boards were reporting publicly on their progress in meeting their strategic goals, although Toronto Catholic reported internally to its board of trustees on an annual basis on its progress in meeting its strategic goals. In its 2012-15 strategic plan, this board had nine strategic priority areas with 35 strategic goals. However, the board's reporting did not individually address the 35 strategic goals, but instead grouped them under the nine priority actions. Also, it is not clear which metrics were being used by the board to assess its progress. In the 2014 strategic plan progress report, Toronto Catholic included a letter grade for each of the nine strategic priority actions, but it was not clear how management arrived at the scores.

The other three boards provide separate updates on each of their strategic priorities to the board of trustees. In addition, their annual reports provide a list of accomplishments towards their strategic goals but provide no tangible assessment of progress towards achieving the goals. For example, Hastings and Prince Edward board's 2016 annual report lists French immersion expansion and upgrading of various computer systems to enhance reporting of student absences as an update on the board's achieving excellence and equity goal. These types of updates do not allow the reader to assess the level of progress on the strategic goal.

4.6.2 Improvement Needed in Implementing Internal Audit Recommendations and Sharing Best Practices

School boards have not implemented all program and operational improvements recommended by their internal audit teams. School boards across the province are grouped into eight regions, each of which is supported by a regional internal audit team. The Ministry provides the funding for these teams, amounting to $5.2 million in 2016/17. Each school board's audit committee decides on the audits to be completed by the audit teams. Regional audits are expected to identify best practices that can then be shared among boards. Each school board's audit committee decides the focus for the audit teams.

Two of the four boards we visited failed to implement many of the recommendations made by their regional internal audit teams. For each of the school boards visited, we reviewed the results of these audits for the last five years, as well as the follow-up work done on recommendations issued from the summer of 2012 to the summer of 2015, to note what percentage of recommendations boards had fully implemented by summer 2017. For the Toronto Catholic board, its regional internal audit team does not regularly follow up on the

audit recommendations it makes, but the board does its own assessment.

Toronto Catholic and Hamilton-Wentworth had implemented only 48% and 61% of the recommendations, respectively, whereas the other two boards had implemented at least 80% of their audit recommendations. For the Toronto Catholic board, recommendations that had not yet been acted on included implementing:

- an attendance support program for school board employees;
- a performance management plan for non-academic staff;
- a centralized database for employee behaviour complaints; and
- case management software for centralized tracking of special-education service referrals and backlogs.

Toronto Catholic would have benefited from an attendance support program to help employees get back to work sooner, as recommended by the regional internal audit team. From the 2011/12 school year to 2015/16, this board experienced an 11% increase in employee sick days and a 23% increase in the cost of replacement teachers. The board told us that because it was under a financial recovery plan it did not have the financial resources available to implement these recommendations.

For the Hamilton-Wentworth board, recommendations that had not yet been acted on included:

- ensuring that school-generated funds were used only for student benefits; and
- implementing a comprehensive preventive maintenance program.

A comprehensive preventive maintenance program was especially relevant to the Hamilton-Wentworth board since one of its strategic goals is to reduce the number of schools in poor condition by 2020.

Although regional audits are intended to identify and share best practices among boards, we noted that over the last five years there were only two instances where the same topic was audited at all school boards within the regions where the four boards we visited are located. In 2012, an audit on compensation, pay, benefits, and timekeeping was conducted at all Ontario East audit region school boards, including the Hastings and Prince Edward board; and in 2014, an audit on broader-public-sector procurement compliance was performed at all Toronto and area region school boards. Best practices identified during the course of these audits were shared with all boards in the region. It would benefit school boards in the same region to co-ordinate audits for similar areas of concern.

In August 2016, the Ontario Association of School Business Officials began posting best practices identified by internal audits on its website for all senior school board business officials to share, but only if the school board where the best practice was identified gives permission to the regional audit team manager to share the information. In February 2017, the Toronto Catholic's regional audit team (Toronto and Area internal audit team) shared leading practices in the areas of payroll, special education, construction, continuing education and information technology with all boards in the region, and these practices were also submitted for posting to the website. From October 2016 to June 2017, 47 leading practices were added to the website.

RECOMMENDATION 9

To provide effective oversight of operations, we recommend that school boards:

- set measurable targets for each of their strategic goals regarding student achievement, student well-being, and stewardship of resources;
- regularly measure progress on the goals against targets and report them publicly;
- implement recommendations on audits conducted by the regional internal audit teams in a timely manner; and
- where possible, co-ordinate to have their regional internal audit teams examine issues common among the boards in the region to identify best practices, which should then be shared with boards province-wide.

RESPONSE FROM SCHOOL BOARDS

All four boards are in agreement and plan to set measureable targets for each of their strategic goals.

All four boards plan to report publicly on the progress of the board's strategic goals.

Both Toronto Catholic and Hamilton-Wentworth recognize the value-add provided by regular internal audit teams and plan to improve the timeliness of implementation of recommendations made by the audit teams. Halton Catholic and Hastings and Prince Edward plan to continue addressing any recommendations of the regional internal audit team in a timely manner.

Toronto Catholic remains committed to sharing leading and best practices not only within the Toronto Area but also with the larger provincial region. Halton Catholic and the regional internal audit team plan to continue engaging in open discussions about best practices. Hamilton-Wentworth plans to hold discussions with the other regional boards to identify any common issues for audit and plans to share best practices on the Ontario Association of School Business Officials' website. Hastings and Prince Edward believes that internal audit teams should determine the type and scope of audits using a risk-based approach that focuses on issues unique to each board. However, it stated that where possible, the board plans to examine common issues among boards to identify and share best practices.

4.7 School Boards Increasing Their Use of Group Purchasing Arrangements

Approximately $3.6 billion or 15% of school board expenditures in 2015/16 went toward the purchase of goods and services. A school board can acquire goods and services more economically through group purchasing arrangements with other school boards than it can on its own.

Based on the information provided, all four boards we visited purchase a portion of their products and services through group purchasing arrangements but there are opportunities for greater collaboration. As all school boards require similar products and services, there is a significant opportunity for more group purchasing arrangements.

4.7.1 Local Group Purchasing Arrangements Used by School Boards

We noted that school boards have formed transportation consortia to acquire and manage bus services for students. There are 33 transportation consortia operating in the province, which typically service the public and Catholic boards in the same area. The provincial cost of transporting students to and from school is about $900 million annually. These services were audited by our Office in 2015.

Three of the four boards (except Hastings and Prince Edward) purchase utilities through the Catholic School Boards Services Association. In 1998, the association started as a not-for-profit consortium of Greater Toronto Area Catholic school boards to provide business opportunities to Ontario school boards to reduce costs, improve effectiveness and generate revenues.

We also noted an increase in the use of contracts negotiated with suppliers by the Ontario Education Collaborative Marketplace (OECM), a group-purchasing organization. The number of school boards acquiring goods or services through OECM's client supplier agreements increased from 44 in 2010 to 71 in 2016. As well, the value of school board purchases through agreements negotiated by OECM increased from $10 million in 2010 to $112 million in 2016. The top four products purchased by school boards in 2016 were computer products and support services, office supplies, custodial products and classroom furniture. One board told us that OECM suppliers provided better value for certain office supplies, but for other services (such as auditing services) the board could find better rates elsewhere.

OECM is a not-for-profit group that specializes in sourcing (finding, evaluating, and contracting with suppliers) for school boards and post-secondary institutions. It was initially set up with Ministry funding. School boards do not pay a membership fee to use OECM's services. Instead, contracted suppliers pay OECM a percentage of sales to school boards or other public-sector organizations. The suppliers self-report revenues and remit fees to OECM.

According to OECM, it typically contracts multiple suppliers (two to four) for each type of goods or services to offer choice to its members. The contracts set a maximum price a vendor can charge to members. If volume thresholds are met through total orders by individual board, then additional discounts are applied. OECM's pricing for products can be beneficial to smaller school boards that do not have the buying power of larger boards to negotiate lower prices.

4.7.2 School Boards Need to Collaborate More on Procuring Goods and Services

School boards' participation in any of OECM's supplier agreements is voluntary. However, OECM staff told us that without commitments from members to use the suppliers, the organization finds it challenging to negotiate the best prices with vendors. In June 2016, an external review of OECM identified that OECM's contracts had not demonstrated the best value for money. The boards we visited told us that they only purchase from OECM-contracted vendors when their prices are better than what they can get on their own. The Toronto Catholic board relies less on this group since, because of its size, it can secure better pricing on its own.

Based on information provided to us by OECM for 2016, school board participation in OECM's services ranged from $380 per student at one school board to less than one dollar per student at another. For the boards we visited, those with smaller budgets, fewer students and less purchasing power, made greater use of OECM's services than the larger boards.

RECOMMENDATION 10

To help reduce costs for goods and services, we recommend that school boards collaborate on future group purchasing arrangements, either through the Ontario Education Collaborative Marketplace or by linking into cost-saving contracts already in place in larger boards, such as the Toronto Catholic District School Board.

RESPONSE FROM SCHOOL BOARDS

All four school boards plan to continue exploring opportunities for more collaborative spending in order to reduce costs.

4.8 Some School Boards Reporting Estimates Instead of Actual Spending for Special Purpose Grants

The Ministry needs complete and accurate data so that it can make appropriate funding and policy decisions and to ensure that restricted funds are spent for the intended purposes. We noted that, except for Halton Catholic, the three other school boards visited used the average salary of a teacher at the board and an estimated/budgeted number of special-education teachers to calculate special-education teacher expenses. Similarly, average salaries were used by the three boards for reporting spending under the Learning Opportunities Grant. The boards indicated that the effort and time required to determine the exact salaries for teachers was too great.

The Toronto Catholic board told us that its Human Resources (HR) system did not accurately identify all special-education teachers. The financial information system relies on the HR system to identify special-education teachers and those teachers' salaries are reported as special-education costs. However, the HR staff has not been able to update all HR profiles for teachers who move between special-education and the regular

classroom. This lack of regular updates has made the special-education costs unreliable.

The Hastings and Prince Edward board told us that its HR system does not track the teachers for special education separately from regular classroom teachers. In addition, Hamilton-Wentworth does not use the Ministry's prescribed expense coding in its system, which leads to many manual adjustments in order to meet the Ministry's reporting requirements.

RECOMMENDATION 11

In order to provide the Ministry with accurate information on spending, we recommend that school boards:

- implement Ministry expense coding into all financial information systems; and
- report actual spending instead of estimated spending for restricted portions of special purpose grants.

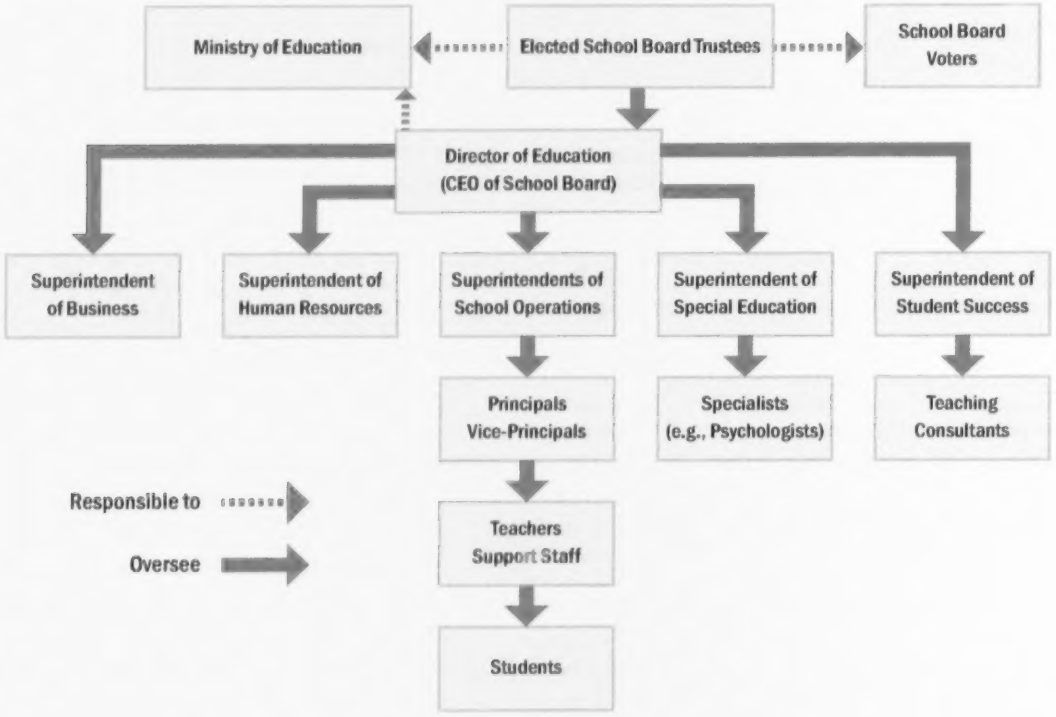
RESPONSE FROM SCHOOL BOARDS

Hamilton-Wentworth is currently reviewing its chart of accounts in order to implement the Ministry's expense coding into the financial information system. Toronto Catholic supports the further enhancement of its financial systems in order to improve its financial reporting processes. The two other boards have already implemented Ministry expense coding into their financial systems.

Toronto Catholic plans to explore use of actual costs as opposed to estimated costs for restricted portions of the special purpose grants. Hastings and Prince Edward and Hamilton-Wentworth are willing to work with the Ministry to improve and standardize HR and financial management systems to support reporting of actual spending instead of estimated spending. Halton Catholic is already in compliance with the recommendation.

Appendix 1: Governance Structure of a Typical School Board

Prepared by the Office of the Auditor General of Ontario



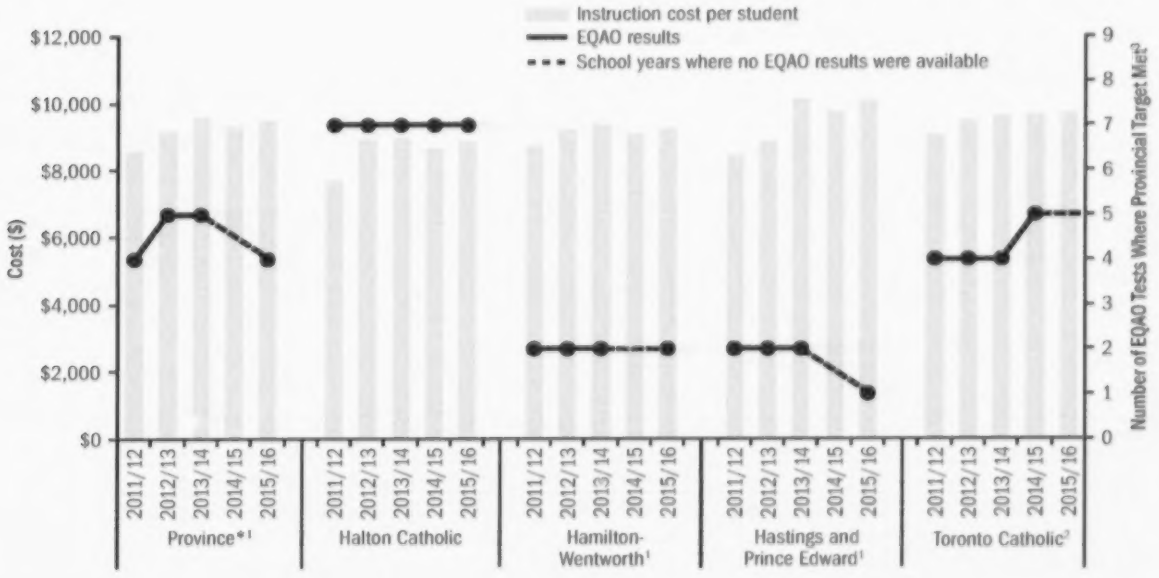
Appendix 2: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	School boards should have effective oversight procedures to ensure operating funds are used to promote student achievement in an efficient and cost-effective manner, within their approved budget.
2.	Processes should be in place to measure and report on school board performance against established targets.
3.	School boards should ensure compliance with requirements outlined in legislation, ministry policy and transfer payment funding arrangements.
4.	School boards should ensure students with exceptionalities are being identified and provided with special education programs that meet their needs.
5.	School boards should have processes in place to acquire and manage school resources cost-effectively.
6.	There should be a mechanism in place to help the sharing of information and best practices among school boards.

Appendix 3: Instruction Cost Per Student and EQAO Results for the Province and for Four Boards Visited, 2011/12–2015/16

Source of data: Ministry of Education, Education Quality and Accountability Office (EQAO)



* EQAO results for province only include English language boards.

1. Hamilton-Wentworth and Hastings and Prince Edward did not participate in 2014/15 EQAO testing due to labour issues. No provincial results are available for the 2014/15 school year because many school boards did not participate in EQAO exams.
2. Toronto Catholic did not particpate in 2015/16 EQAO testing due to labour issues.
3. EQAO results measure percentage of students to achieve a level 3 or 4—equivalent to a B grade or better. For the nine EQAO tests, where 75% (provincial target) or more of board's students achieved level 3 or 4.

Ministry of Citizenship and Immigration

Settlement and Integration Services for Newcomers

1.0 Summary

In the last five years, more than 510,000 immigrants settled in Ontario as permanent residents. These newcomers may need help getting settled, with anything from finding a home, getting a job, or accessing health care to registering their children in school.

The federal government is the primary funder of services to help newcomers settle in this province, but the Ontario Ministry of Citizenship and Immigration (Ministry) also has a mandate to successfully settle and integrate newcomers in Ontario, and funds settlement and integration services that include:

- adult English- and French-language training;
- newcomer settlement services, including orientation sessions and referrals to community and government services; and
- education and training through its bridge training programs to help internationally trained immigrants obtain certification and employment in regulated and highly skilled professions.

Ministry services are primarily delivered by contracted service providers that include, for example, public and Catholic school boards, universities, colleges and non-profit community organizations. In 2016/17, the Ministry provided approximately $100 million to service providers to deliver settlement and integration services. These organizations provided services to over 80,000 individuals who accessed settlement services, over 68,000 participants in language training, and almost 6,000 individuals who participated in education and training through bridge training programs.

Between November 2015 and May 2017, Ontario welcomed over 20,000 Syrian immigrants in response to the global Syrian refugee crisis. As a result of this influx of newcomers, the Ministry launched the Refugee Resettlement Services Initiative to facilitate the resettlement of refugees in Ontario, and to support the successful integration of newly arrived refugees. By the end of the 2016/17 fiscal year, about 11,300 people had received services through this initiative.

Our audit looked at whether the Ministry has effective systems and procedures in place to make sure that the service providers they fund provide newcomers with appropriate, timely and effective services. It also considered how the Ministry allocates funding to service providers to ensure the funding is based on the needs of the people they serve. We further assessed the way the Ministry monitors, measures and reports on the success of the settlement services it funds.

We found that the Ministry's bridge training program is helping many internationally trained newcomers get the training they need to gain

employment. Bridge training service provider contracts completed in the last three years indicate that an average of 71% of those completing their bridge training program obtained employment in their field or in a related field. The Ministry has also recently taken steps to improve its services for newcomers, including introducing standardized assessment tools for its language training program to help increase the consistency of program delivery and assess learners' language progression.

However, we also found that there has been limited co-ordination between the Ministry and the federal government, which also funds settlement services in Ontario, to avoid duplication of the services they provide. For example, we found that approximately 60% of the Ministry's language training clients in the 2015/16 school year (the most recently completed) were also eligible for federally funded language training. Thus, the extent that the Ministry also needs to fund this service for these individuals is unclear, particularly since the average enrolment in the Ministry's program has declined in each of the last five school years. We estimate that in 2016/17, approximately $30 million in Ministry-funded services provided to newcomers duplicated services already funded by the federal government.

Similarly, we found that Ministry co-ordination with other Ontario ministries that provide services that can help newcomers to settle and integrate in Ontario has been limited. While several ministries provide services to newcomers that include education, employment supports and health services, the Ministry of Citizenship and Immigration does not have formal arrangements in place to obtain information from these ministries on the number of newcomers they serve or their outcomes. As well, we were advised that the overall cost of providing services that can help newcomers to settle and integrate in Ontario has not been quantified by either this Ministry or any other ministry.

While the Ministry's objective is to successfully settle and integrate newcomers in Ontario, we found that it has not defined what constitutes a successfully settled and integrated newcomer. The Ministry has not established settlement and integration milestones for newcomers and related time frames so that it can assess whether it is meeting its objectives for newcomers, or whether newcomers require more help. We found that some newcomers still require the Ministry's services even after many years in Canada—for example, 25% of the newcomers attending the Ministry's language training program had been in Canada for more than 10 years.

The following are some of our significant findings:

- **The Ministry does not allocate its funding for services based on the actual settlement and integration needs of newcomers.** The Ministry advised us that funding allocations for each service are determined separately and are not based on a comparison of relative need. We noted that the Ministry has not assessed the service needs to help determine the appropriate mix of services to allocate its funding. Based on our review of service and expenditure data reported by service providers we noted that funding is not always allocated to the services most needed by newcomers. For example:
  - **The need for language training has declined.** We noted a decline in the average enrolment for Ministry-funded language training in each year over the last five school years from almost 17,200 in 2011/12 to just over 14,900 in 2015/16. As a result, the amount spent for the language training program during this five-year period totalled $24 million less than what was budgeted.
  - **Funding for bridge training has decreased despite successful program results.** Service provider bridge training contracts completed in the last three years indicate that an average of 71% of those who have completed programs obtained employment in their field or in a related field. Although baseline Ministry funding

for this program has been consistent over the last five years at $16.2 million per year, funding above the annual baseline has fluctuated based on the Ministry's ability to secure time-limited contributions from both the provincial and federal governments. We found that overall funding for bridge training has declined by about one-third over this period, from a high of $34.4 million in 2012/13 to just $23 million in 2016/17. As a result of the instability in year-to-year funding, and the overall reduction in the program's funding, the Ministry funded only five new programs focused on getting a job or getting a licence in a regulated profession over these years, compared to 75 new programs between 2009 and 2011.

- **The Ministry does not consistently select and fund service providers best able to deliver services to newcomers.** We found that the Ministry did not establish minimum scores that applicants were required to achieve to qualify for bridge training and newcomer settlement funding. As a result, the Ministry approved and funded several proposals with a score of less than 50%. These included bridge training programs that subsequently reported that between just 26% and 32% of those who completed the programs obtained employment. In addition, the Ministry did not always select and fund bridge training and newcomer settlement proposals that scored highest, in favour of continuing to fund existing service providers that may not have scored as high. For example:
  - **All existing newcomer settlement service providers were renewed regardless of their proposal score.** We noted that all 95 service providers already receiving newcomer settlement funding that submitted a proposal for funding in 2015 were awarded a contract to continue to provide services in the 2016/17 and 2017/18 fiscal years. Conversely, we found just two of 100 new applicants were awarded a contract even though the top 20 scoring applicants that were rejected received an average score of 81% from the Ministry, which was significantly higher than the bottom 20 scoring approved applicants, whose average score was just 53%.
  - **New applicants to provide bridge training are rarely awarded contracts regardless of their qualifications to deliver services.** In response to the most recently completed call for proposals (in 2013) for bridge training programs focused on getting a job or getting licensed in a regulated profession, 17 of 18 proposals to renew an existing bridge training program were approved, compared to just five of 53 applications for a new program. We also noted that the Ministry's prior request for proposals (in 2012) was limited to existing program providers already receiving funding.
- **The Ministry does not assess significant differences between service providers' costs to ensure they operate cost-effectively.** We found that the actual cost per client visit in the newcomer settlement program, and the cost per client employed in the bridge training program, differed significantly between service providers. However, the Ministry does not compare service and financial data reported by service providers to assess whether differences are reasonable and service providers are operating in a cost-effective manner. For example, based on service provider bridge training contracts completed in the last three years, the average cost per individual who completed bridge training and obtained employment ranged from a high of $106,100 in one service provider's program to a low of $3,600 in another provider's program.
- **The Ministry does not consistently monitor the outcomes of service providers and newcomers to facilitate taking corrective**

action. We analyzed outcome information and noted significant differences in newcomer outcomes that should be followed up, including:

- **Language learners at some school boards do far better than learners at other school boards.** About half of all language learners who received at least 100 hours of language training demonstrated some progress in learning English or French in the 2015/16 school year. However, results at individual school boards differed substantially, ranging from no learners demonstrating progress at one school board to 78% of learners at another.
- **Differences in success of bridge training between service providers are not compared.** While the average employment rate among all bridge training program contracts completed in the last three years was 71%, we noted significant differences between the programs. For example, many programs reported that less than 40% of those who completed training obtained employment. As well, while the percentage of clients who became licensed in their regulated profession after completing their bridge training program was 48%, many programs reported that less than 30% of those who completed training became licensed.
- **Language learner progress is still low among participants who received more instruction.** Across all school boards, only 27% of English learners who received at least 500 hours of language training progressed by an average of one Canadian language benchmark across reading, writing, listening and speaking.
- **Ministry performance indicators are not sufficient to monitor newcomer settlement and integration outcomes.** The Ministry's performance indicators to measure the successful integration of newcomers focus on employment, language skills and the number of newcomers still living in the province after five years. However, these indicators are not sufficient to monitor the settlement and integration outcomes of the newcomers it serves. For example:
  - **Ministry performance indicators for newcomers do not measure key aspects of integration including health, housing and education.** The Ministry does not have performance indicators to measure the progress of all newcomers in settling and integrating in key areas such as health, housing and education. Conversely, in 2017 the Ministry's former Syrian Refugee Resettlement Secretariat developed a performance measurement framework to measure the progress of Syrian refugees across four dimensions: settlement and integration, health, education, and economics.
  - **There is no indicator to measure the number of newcomers receiving social assistance.** The Ministry has not established an indicator to measure what happens to newcomers who do not obtain employment. In 2016/17, the Ministry of Community and Social Services provided Ontario Works social assistance benefits to almost 120,000 cases where the primary applicant was born outside of Canada. These cases involved more than 240,000 recipients, and total benefits paid amounted to almost $850 million. Over the last 10 years, those born outside of Canada have accounted for about one-third of all Ontario Works cases and received approximately 40% of all Ontario Works benefits paid.
  - **Ministry learning targets for language training provide little insight into whether newcomer language training goals are met.** The Ministry has set a target for 2018/19 for 60% of language learners

who receive at least 100 hours of training to progress by one Canadian language benchmark in at least one skill area. However, it has not put in place performance indicators and targets to determine whether learners are making sufficient progress to meet their academic and employment goals.

- **Newcomers with limited language skills may not be aware of available services as the Ministry's websites are only in English and French.** The Ministry provides information on two websites about the settlement and integration services it funds for newcomers, including services offered and where they are located. However, because the websites are available in only English and French, newcomers who are not proficient in either language may not find them useful to get the information they need.

This report contains 10 recommendations, consisting of 23 actions, to address our audit findings.

Overall Conclusion

The Ministry of Citizenship and Immigration (Ministry) did not have effective systems and procedures to ensure that the service providers it funds consistently provide newcomers with effective services. The Ministry could not demonstrate that it allocates funding to its different services and service providers based on the needs of those they serve and commensurate with the value of the services provided. While the Ministry does collect and measure some program outcomes, these outcomes are not consistently assessed and are not currently reported publicly, nor are they sufficient to monitor newcomer settlement and integration outcomes.

OVERALL MINISTRY RESPONSE

The Ministry of Citizenship and Immigration (Ministry) thanks the Auditor General and her staff for their work in examining the Ministry's Settlement and Integration Programs for Newcomers. We value the observations and recommendations to increase the effectiveness of the Ministry's settlement and integration programs. Helping newcomers and their families achieve success is a key objective in the Ministry's strategic plan, *A New Direction: Ontario`s Immigration Strategy*.

The Ministry invests over $100 million annually in programs to help newcomers improve their English- or French-language skills, become licensed and employed in their profession or trade in Ontario, and find the information and supports they need to settle successfully in their communities. The Ministry recognizes the importance of modernization, performance measurement and data management, and is committed to building on work already begun to address the recommendations in the Auditor General's report.

The Ministry has taken significant steps to increase collaboration and co-ordination with the federal government. The Ministry is finalizing a new Canada-Ontario Immigration Agreement that provides a framework for joint planning on shared priorities. The Agreement includes a related Memorandum of Understanding designed to improve information and data sharing to support performance measurement and research on immigrant outcomes, and a Settlement Memorandum of Understanding to facilitate bilateral co-ordination in the delivery of settlement and integration programs in order to maximize investments, reduce duplication and address service gaps.

To modernize its core business practices, the Ministry is enhancing its data analytics capacity and is implementing a strategy to develop a data culture and quality data to

support evidence-based decision-making. The Ministry has also created an evaluation and performance measurement unit to focus on program relevance, performance, efficiency and effectiveness.

We look forward to working with our partners to continuously improve our programs for newcomers to help them succeed in Ontario. The Auditor General's report will help sharpen our focus as we work to strengthen our programs.

2.0 Background

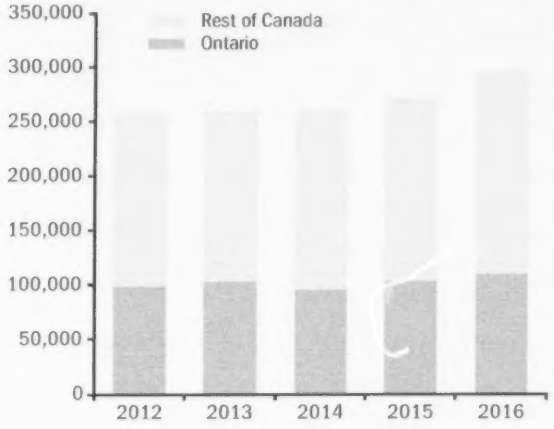
2.1 Immigration in Ontario

In the last five calendar years (2012–16), approximately 1,345,000 immigrants settled in Canada as permanent residents, including more than 510,000 permanent residents who settled in Ontario. **Figure 1** illustrates the number of permanent residents who settled in Ontario and Canada over the last five calendar years. Permanent residents generally fall under four categories:

- **Economic immigrants**—people selected for their skills and ability to contribute to Canada's economy.
- **Family class immigrants**—people sponsored by close relatives, such as spouses, children, parents and grandparents, who are legal residents of Canada.
- **Refugees**—people forced to flee from their home country who have been selected by the federal government for resettlement to Canada, and sponsored by either the federal government or private citizens. People who seek asylum after arriving in Canada and who have had their claim approved by the federal government are also classed as refugees. Asylum seekers who have not yet had their refugee claim approved are not considered permanent residents. **Section 2.3** discusses refugees.

Figure 1: Number of Permanent Residents Arriving in Canada, 2012–2016

Source of data: Immigration, Refugees and Citizenship Canada



- **Other immigrants**—people admitted to Canada for a number of other reasons, including those selected on humanitarian or compassionate grounds.

Figure 2 shows the breakdown of permanent residents arriving in Ontario by category.

The federal government holds the primary responsibility for immigration in Canada, including setting annual immigration levels and conferring or revoking Canadian citizenship.

The Ministry of Citizenship and Immigration (Ministry) has a mandate to maximize the benefits of immigration by providing services to successfully settle and integrate newcomers socially and economically. In 2012, the Ministry released *A New Direction: Ontario's Immigration Strategy* to set a new direction on how it selects, welcomes and helps immigrants to the province. The objectives of the strategy include (but are not limited to):

- attracting a skilled workforce and building a stronger economy;
- helping newcomers and their families achieve success; and
- leveraging the global connections of our diverse communities.

Figure 2: Number of Permanent Residents Arriving in Ontario by Category, 2012–2016

Source of data: Immigration, Refugees and Citizenship Canada

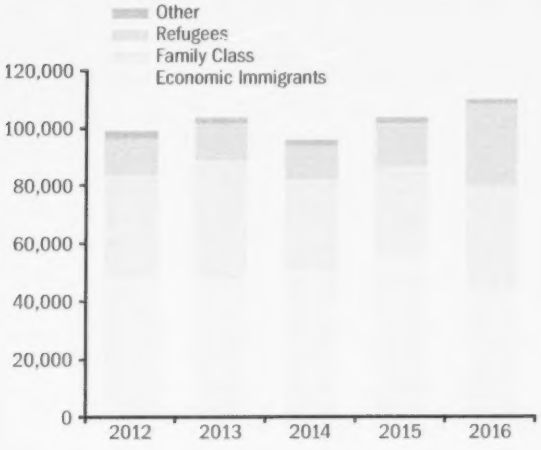
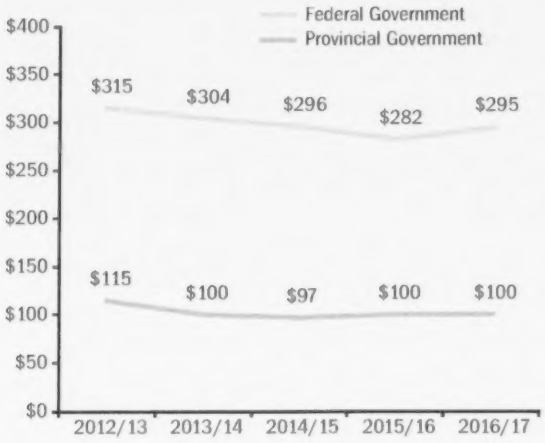


Figure 3: Federal and Provincial Funding for Newcomer Settlement Services, 2012/13–2016/17 ($ million)

Source of data: Ministry of Citizenship and Immigration



2.2 Settlement and Integration Services

Newcomers often require supports to help them successfully settle and integrate in Ontario.

The federal government is the primary funder of such services. It funds settlement services that include information and orientation sessions; assessment of needs and referrals to community and government services; English and French language training; and employment-related supports.

To help achieve its settlement and integration mandate, the provincial ministry also provides services to help meet the needs of newcomers and the goals identified in its immigration strategy. These goals include:

- improving job prospects for immigrants;
- achieving employment rates and income levels for immigrants that are in line with other Ontarians; and
- increasing employment rates of immigrants in fields that match their education and experience.

In 2016/17, the Ministry provided approximately $100 million in transfer payments to service providers such as public and Catholic school boards, universities, colleges and other non-profit community organizations to provide settlement and integration services to newcomers to help meet these goals. The federal government committed $295 million in the same year to fund newcomer settlement services in Ontario. **Figure 3** shows the amount of funding contributed by each level of government for these purposes.

Although both the federal government and the Ministry fund the delivery of settlement and integration services, eligibility for these services differs. Generally, only newcomers with permanent resident status are eligible for federally funded services. Ministry-funded services are available to permanent residents as well as to asylum seekers and naturalized Canadian citizens (newcomers who have obtained their Canadian citizenship). **Figure 4** illustrates eligibility for federal and Ministry-funded settlement and integration services.

The following sections describe the Ministry's key programs under which these services are delivered. In addition, **Figure 5** shows the breakdown of Ministry funding by program, and **Figure 6** illustrates the number of individuals who accessed Ministry-funded programs.

Figure 4: Eligibility for Federal and Ministry of Citizenship and Immigration-Funded Newcomer Settlement Services
Prepared by the Office of the Auditor General of Ontario

	Permanent Residents			Other Residents			
Service Funding Source	Economic Immigrants	Family Class	Refugees	Naturalized Canadian Citizens	Asylum Seekers	Temporary Residents	No Residency Status
Ministry	Yes	Yes	Yes	Yes	Yes	No*	No
Federal Government	Yes	Yes	Yes	No	No	No	No

* Temporary residents (such as international students and temporary foreign workers) are only eligible for Ministry-funded Newcomer Settlement and Global Experience Ontario services.

2.2.1 Language Training

The Ministry's language training program funds public and Catholic school boards to deliver English/French-as-a-second-language (ESL/FSL) training to adult immigrants so they can gain the language skills they need to live and work in Ontario. In the 2016/17 fiscal year, the Ministry funded over 30 school boards on a fee-for-service model. The fee is based on a rate established by the Ministry of Education for adult education programs multiplied by a school board's enrolment for the year. In the 2016/17 school year, the rate was $3,368 per 950 hours of instruction provided to students.

Starting in 2013/14, all adult immigrants interested in accessing funded language training programs must have their English or French language proficiency assessed against standard Canadian language benchmarks. The assessment is conducted through the Coordinated Language Assessment and Referral System, jointly funded by the Ministry and the federal government. Once assessed, language learners are referred to the appropriate language courses funded by either the federal government or the Ministry.

Through its language training program, the Ministry also funds school boards and other service providers for projects to develop resources and tools, and to pilot new program delivery approaches.

2.2.2 Newcomer Settlement

The Ministry's newcomer settlement program funds almost 100 non-profit community agencies to deliver services to newcomers in over 90 languages in more than 30 communities across Ontario. These service providers deliver core services that include:

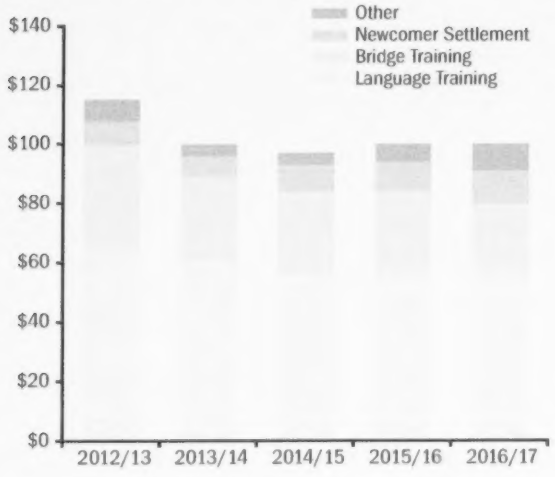
- assessment of newcomer needs and referrals to community and government services (such as school enrolment, getting a health card and social insurance number, and employment services);
- language translation and interpretation services (such as help with filling out forms, translation of documents and booking appointments);
- orientation sessions to help newcomers integrate into Canadian society (including learning about banking, legal rights and available local services); and
- connecting newcomers with social and professional networks (such as recreational and social clubs, mentoring groups and professional associations).

The Ministry also funds professional development for settlement workers working with newcomer youth, refugees, isolated women, seniors, and newcomers living in rural communities. It also funds an initiative to raise awareness about sexual violence and harassment among newcomer communities and improve supports for victims.

The Ministry awards funding to service providers through a call for multi-year proposals (typically, two-year contracts) that are evaluated

Figure 5: Ministry Payments to Service Providers by Program, 2012/13–2016/17 ($ million)

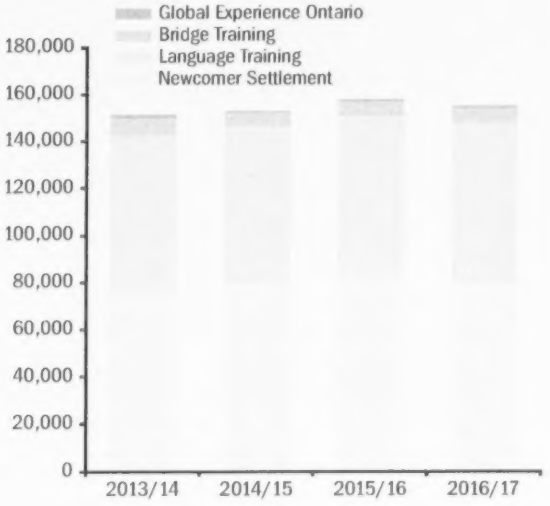
Source of data: Ministry of Citizenship and Immigration



Note: Other Funding in 2016/17 includes $5 million for Refugee Resettlement Services Initiative.

Figure 6: Number of Unique Individuals Served by Ministry Program, 2013/14–2016/17

Source of data: Ministry of Citizenship and Immigration



Note: For 2016/17, the number of individuals served is estimated for language training as complete data is not yet available. Data on individuals served is not available for all programs prior to 2013/14.

by Ministry staff against a range of criteria. These include the service provider's organizational capacity to provide the program (based on the applicant's experience in delivering the proposed services); submitted budget (including whether the expenses are reasonable and the budget is detailed); demonstrated need for the proposed services; and proposed targets for services.

2.2.3 Bridge Training

The Ministry's bridge training program funds service providers to help internationally trained immigrants gain employment without duplicating their previous training and education. Service providers include colleges and universities, occupational regulatory bodies, and non-profit community agencies that provide training and services under the following three categories:

- **Getting a licence**—training to help internationally trained immigrants obtain certification in regulated professions.
- **Getting a job**—training to help internationally trained immigrants gain employment in both regulated and highly skilled, non-regulated professions.
- **Changing the system**—creating system-wide changes to improve the integration of internationally trained immigrants into the Ontario labour market (such as tools and resources for employers to better understand and assess immigrants' skills and experience).

The Ministry awards funding to service providers through a call for multi-year proposals (typically, two- and three-year contracts) that the Ministry evaluates against criteria that include the service provider's organizational capacity to provide the program (based on the applicant's experience in delivering the proposed program), and the submitted budget (to ensure expenses are reasonable and the budget is detailed). The evaluation also looks at the specific gaps in skills, knowledge and/or experience of participants the project will address and the proposed targets for the services. In 2016/17, the Ministry funded almost 40 service providers to provide bridge training programs.

2.2.4 Global Experience Ontario

The Ministry directly delivers services under Global Experience Ontario, a call and information service to help guide internationally trained individuals through licensing and registration processes in non-health professions and trades regulated by the Ontario College of Trades. This service was established under the *Fair Access to Regulated Professions and Compulsory Trades Act, 2006*. Global Experience Ontario is the only newcomer settlement and integration service that the legislation requires the Ministry to provide. In 2016/17 the Ministry provided information and referral services to more than 600 clients.

2.3 Refugee Resettlement

Refugees are permanent residents who fall under four main categories:

- **Government-assisted refugees**—people who have been selected and sponsored by the federal government for resettlement to Canada (while still outside Canada). The federal government provides direct income support to this group of refugees for their first 12 months in Canada.
- **Privately sponsored refugees**—people who have been selected for resettlement to Canada by the federal government (while still outside Canada) who are sponsored and financially supported for the first 12 months by private organizations or individuals.
- **Blended sponsorship refugees**—people who have been selected for resettlement to Canada by the federal government (while outside Canada) who have been sponsored by private organizations or individuals. The federal government provides up to six months of income support, and private sponsors provide another six months.
- **Refugees landed in Canada**—people who entered Canada on their own and sought asylum after their arrival, whose refugee claim has been approved by the federal government. Refugees landed in Canada do not receive income support from the federal government.

As noted, refugees are eligible for both federal and Ministry-funded settlement and integration services. The federal government also provides reception services (such as meeting and greeting refugees upon arrival, providing winter clothing, and providing transportation to their destination) and temporary accommodation (as well as help in finding permanent accommodations) to refugees. The following section describes additional services provided by the Ministry.

2.3.1 Ministry-Funded Refugee Services

Between November 2015 and May 2017, almost 46,000 Syrian refugees resettled in Canada, including more than 20,000 in Ontario, as illustrated in **Figure 7**.

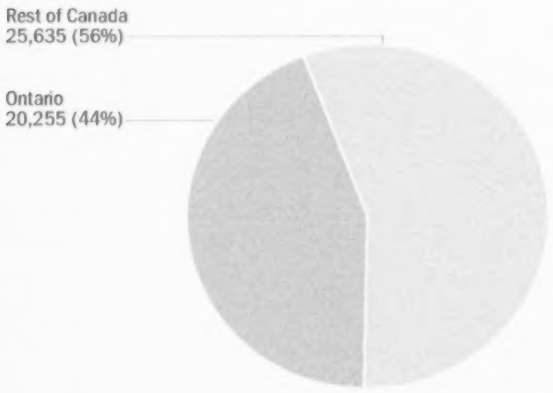
In September 2015, in response to the global refugee crisis, the Ministry launched the Refugee Resettlement Services Initiative to facilitate the resettlement of refugees in Ontario, and to support the successful integration of newly arrived refugees. The specific objectives of these services include:

- increasing the number of privately sponsored refugees to Ontario;
- enhancing settlement services to help settle and integrate new refugees; and
- encouraging fundraising to support refugee resettlement.

Funding for these services was $2.1 million in 2015/16 and $5.0 million for 2016/17, the first full year these services were offered. By the end of the 2016/17 fiscal year, services had been provided to about 11,300 unique clients. Services are available to government-supported refugees, privately sponsored refugees and private sponsors of refugees. Non-profit community organizations provide these services. They include the following:

- **Refugee settlement and integration**—includes first language settlement services

Figure 7: Number of Syrian Refugees Settled in Ontario and Canada, November 2015–May 2017
Source of data: Immigration, Refugees and Citizenship Canada



and case management; specialized services for refugee women and youth (such as homework help, mentoring, co-ordination of access to mental health services, guidance on parenting in a new culture, and support for victims of domestic and sexual violence); housing assistance; and employment preparation supports.

- **Sponsorship supports**—include sponsor recruitment and training; matching sponsors with refugees overseas; training for lawyers and law students to prepare sponsorship applications; and training and assistance for sponsors to help them settle newly arrived refugees.
- **Capacity building**—includes public education to promote welcoming communities and combating racism, and training for settlement workers on refugee trauma and mental health.

Syrian Refugee Resettlement Secretariat

In addition to these refugee resettlement services, the Ministry was also responsible for the Syrian Refugee Resettlement Secretariat (Secretariat). The Secretariat was initially established by Cabinet Office as a temporary unit in November 2015 (and subsequently transferred to the Ministry in February 2016) in response to the federal government's launch of a national plan to resettle Syrian refugees. Its purpose was to lead cross-government efforts to support the resettlement and integration of Syrian refugees in Ontario by working with the federal government to ensure that the relevant stakeholders, including other ministries, municipalities and service providers in Ontario, were aware of how many Syrian refugees were coming and when. This would enable them to respond appropriately with key services such as health services and educational supports for children.

The Secretariat was also tasked with developing a performance measurement framework to evaluate the resettlement and integration outcomes of Syrian refugees. In addition, the Secretariat consulted with organizations and individuals that were involved in resettling Syrian refugees in Ontario to identify gaps and opportunities for improvement in service delivery, and to make recommendations to address such concerns. Other Ontario ministries, newcomer settlement agencies, school boards, municipalities and focus groups of Syrian refugees were among those consulted.

Although the Secretariat wound down in May 2017, it was replaced in June 2017 by the Refugee Resettlement Secretariat, which has a broader mandate that focuses on all refugees. The Refugee Resettlement Secretariat's budget for the 2017/18 year is $1.2 million; its responsibilities include implementing the previous Secretariat's performance measurement framework and following up with other Ontario ministries to determine their progress toward addressing its recommendations. The Refugee Resettlement Secretariat is currently expected to cease operations in March 2019.

2.4 Oversight and Performance Measurement

The Ministry enters into multi-year contracts with service providers delivering its newcomer settlement and integration services. Obligations in the contracts include reporting requirements, service targets and allotted funding. The Ministry

has implemented a number of oversight activities to assess whether service providers are meeting their contractual obligations, including risk assessments, progress reports and audited financial statements. These oversight activities are described in **Appendix 1**. In addition to these activities, the Ministry may conduct ad hoc reviews and site visits in response to specific concerns about a service provider. The Ministry has also commissioned external evaluations of the programs it funds to assess their alignment with its own mandate and strategic objectives.

Over the last five years, the Ministry has not had a consistent set of performance indicators to assess its own performance or the performance of the settlement and integration services that it funds. However, in a 2017/18 planning report to Treasury Board, the Ministry identified new performance indicators it intended to track and report on in the future—complete with baseline values and targets, and target dates to achieve specific results. **Appendix 2** describes the four performance indicators the Ministry implemented as a result of this process.

2.5 Services Provided by Other Ontario Ministries

Although the Ministry's mandate is to successfully settle and integrate newcomers in Ontario, other ministries also provide services to newcomers that can assist in their settlement and integration. They include:

- **Ministry of Advanced Education and Skills Development**—provides (through Employment Ontario) employment training, literacy and basic skills, labour market programs and services to help newcomers to find employment.
- **Ministry of Education**—provides elementary and secondary education to students in Ontario (including newcomers). It also provides educational supports, including English language acquisition, special education and mental health services. The Ministry has also provided funding for summer school opportunities that include newcomers from a refugee background.
- **Ministry of Community and Social Services**—provides social assistance to low-income families in Ontario (including newcomers), as well as supports for victims of domestic violence, and supportive services for adults and children with developmental and/or physical disabilities.
- **Ministry of the Status of Women**—funds programs for women (including newcomers) that prevent violence against women and promote women's economic security, including counselling, and entrepreneurial and employment training. It also funds public education campaigns that reach newcomer communities to provide information on family law (legal information about women's rights under Ontario and Canadian law) and raise awareness about violence against women.
- **Ministry of Health and Long-Term Care**—funds, through Ontario's 14 Local Health Integration Networks, 75 Community Health Centres to provide primary health care and community health programs to individuals who face barriers accessing health-care services, including refugees, new immigrants, and individuals who do not have health insurance.
- **Ministry of Children and Youth Services**—funds services for children and youth that include child protection, special needs, healthy child development, youth justice, and mental health. To support the recent arrival of Syrian refugees, it funds a specialized immigration team that provides training and consultation, as requested, to Children's Aid Societies, and private sponsorship groups about immigration-related issues and to settlement agencies to support and educate Syrian newcomers about Canadian laws and Parenting. In addition, it has also funded youth outreach workers to provide one-on-one supports to high-risk Syrian refugee youth.

- **Ministry of the Attorney General**—funds Legal Aid Ontario to provide legal aid services to low-income individuals throughout Ontario, including newcomers. For newcomers this includes legal aid to asylum seekers to assist with their legal proceedings for the determination of their refugee status.

3.0 Audit Objective and Scope

Our objective was to assess whether the Ministry of Citizenship and Immigration (Ministry) has effective systems and procedures in place to ensure that service providers provide newcomers in need of settlement and integration services with appropriate, timely and effective services in accordance with signed agreements; funding is allocated to service providers based on the needs of those they serve and commensurate with the value of the services provided; and the Ministry's program outcomes are measured, assessed and publicly reported on. We did not include the Ministry's Provincial Nominee Program in our audit because we completed an audit of that program in 2014.

Before starting our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 3**). These criteria were established based on a review of applicable legislation, directives, policies and procedures, internal and external studies, and best practices. Senior management at the Ministry reviewed and agreed with the suitability of our objective and related criteria.

We focused on the Ministry's activities in the five-year period ending March 2017. We conducted our audit between January 2017 and August 2017, and obtained written representation from Ministry management on November 10, 2017, that it has provided us with all the information it is aware of that could significantly affect the findings or the conclusion of this report.

Our work included detailed discussions with appropriate staff at the Ministry involved in the design, funding, delivery, oversight and performance measurement of the Ministry's settlement and integration services for newcomers. We also reviewed and analyzed applicable files, including policies and procedures, and service, financial and performance results reported to the Ministry by service providers that deliver the services it funds. In particular, our audit focused on three settlement and integration programs funded by the Ministry—language training, bridge training and newcomer settlement—that together account for approximately 90% of Ministry funding.

We also met with senior staff at the Ontario Council of Agencies Serving Immigrants—an organization that serves as a collective voice for immigrant- and refugee-serving organizations in Ontario—to identify and discuss concerns and challenges agencies face in their delivery of settlement and integration services to newcomers. In addition, we visited and spoke with representatives from school boards to obtain their perspective on the delivery of language training, and we surveyed all school boards (and received responses from more than 85%) that deliver English- and French-language training to newcomers to obtain feedback about the timeliness and accessibility of their training. We also visited newcomer settlement service providers to obtain their perspective about the challenges newcomers face in obtaining the services they need to successfully settle and integrate. As well, we contacted other Canadian provinces regarding funding, performance measurement and best practices related to settlement and integration services in their province.

We reviewed the relevant audit reports issued by the province's Internal Audit Division in determining the scope and extent of our audit work.

4.0 Detailed Audit Observations

4.1 Ministry Funding of Newcomer Services Is Not Allocated Based on Assessment of Need and Cost-Effectiveness, and Not Always to Highest Scoring Service Providers

The Ministry of Citizenship and Immigration (Ministry) has not allocated funding to its settlement and integration services based on the assessed needs of newcomers. In addition, its processes for allocating funding are not always effective in ensuring funding is allocated to the services and service providers that can best address the settlement and integration needs of newcomers efficiently and effectively.

4.1.1 Ministry Funding Overlaps with Federally Funded Services

While the Ministry is aware that the settlement and integration services it funds often overlap with services provided by the federal government, it has not assessed the need for this duplication of services and taken action to minimize it.

In 2016/17, $68 million—more than two-thirds of total Ministry transfer payments to service providers—went to the delivery of language training and newcomer settlement services, which are also funded in Ontario by the federal government. Although the Ministry also provides these services to individuals who are not eligible for federally funded services (refugee claimants and naturalized Canadian citizens), we found that more than 60% of language training clients in the 2015/16 school year and 25% of newcomer settlement clients were permanent residents and therefore eligible for federally funded services (as illustrated in **Figure 8** and **Figure 9**). We estimate that for 2016/17, approximately $30 million in language training and newcomer settlement services was funded by the Ministry when such services are already provided and funded by the federal government.

Figure 8: Percentage of Language Training Clients by Immigration Status, 2015/16
Source of data: Ministry of Citizenship and Immigration

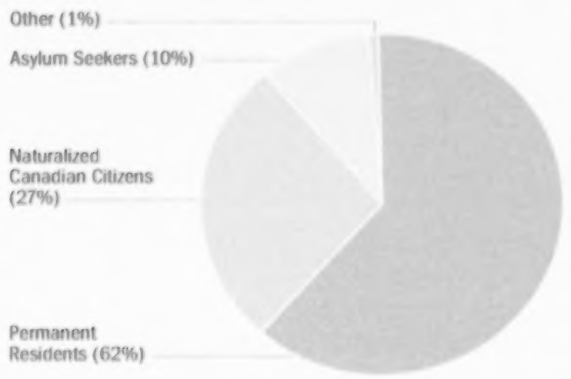


Figure 9: Percentage of Newcomer Settlement Clients by Immigration Status, 2016/17
Source of data: Ministry of Citizenship and Immigration

4.1.2 Ministry Does Not Allocate Funding to Services Based on Actual Needs of Newcomers

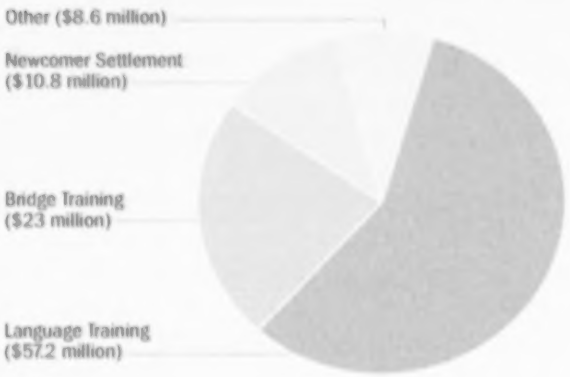
The Ministry advised us that funding allocations for each service are determined separately and are not based on a comparison of the relative need for each service or its success in meeting newcomers needs. Senior Ministry staff we spoke to indicated that pooling all program funding together and allocating funding to individual programs based on evolving newcomer needs would be beneficial.

In addition, the Ministry has not assessed the needs of newcomers to help ensure that its limited funding is distributed to the appropriate mix of services. As **Figure 10** shows, $91 million—or about 90% of the Ministry's funding in 2016/17—was allocated to service providers to deliver the language training, bridge training and newcomer settlement programs.

Based on our review of service and expenditure data reported by service providers, we confirmed that funding is not allocated to the services most needed by newcomers. For example:

- **Declining need for language training services is an opportunity to reallocate funding.** We noted a decline in the average enrolment for Ministry-funded language training in each year over the last five school years from almost 17,200 in 2011/12 to just over 14,900 in 2015/16. As a result, the amount actually spent for the language training program during this five-year period was $24 million less than budgeted. The unused language training budget was either not spent, or spent to fund other Ministry settlement services and priorities. As well, a review of the limited wait-list data captured by the Ministry indicated that the list of those waiting for Ministry-funded language training is short, amounting to less than 2% of clients served.
- **The level of need for Ministry-funded newcomer settlement services is unclear.** In response to increased demand for newcomer settlement services, in the last five years (2012/13–2016/17) the Ministry reallocated unspent funds from other services to settlement services, and in 2015/16 it also increased base funding for newcomer settlement services by $3.5 million. Funding requested by newcomer settlement service providers in 2015 for the 2016/17 and 2017/18 fiscal years was more than twice the amount they were given by the Ministry. We noted the Ministry does not have the necessary information (such as wait-list data from service providers) to help determine the extent and need of services. The service providers we visited told us that they were generally able to provide services to newcomers who sought help in person on the same day, and could accommodate newcomers who arranged appointments in advance within three weeks.

Figure 10: Transfer Payments by Program, 2016/17
Source of data: Ministry of Citizenship and Immigration



- **Bridge training is successful in integrating many immigrants into the workforce, but funding has decreased.** As described in **Section 4.3.3**, the majority of participants who completed bridge training obtained employment in their field or a related field. Although baseline funding for bridge training has been consistent over the last five years (2012/13–2016/17) at $16.2 million, funding above the annual baseline of $16.2 million has fluctuated based on the Ministry's ability to secure time-limited contributions from both the provincial and federal governments. We found that overall funding for bridge training has declined over this period from a high of $34.4 million in 2012/13 to $23 million in 2016/17. We noted that as a result of the instability of funding from year to year, and the overall reduction to the program's funding, the Ministry only once solicited new proposals for bridge training programs and

funded only five new licensure and employment programs. This is significantly lower than the 75 new proposals awarded funding between 2009 and 2011.

RECOMMENDATION 1

In order for the Ministry of Citizenship and Immigration to use its resources cost-effectively so that it best meets the settlement and integration needs of newcomers to Ontario, we recommend that the Ministry:

- evaluate the need for provincial funding of services also funded by the federal government and, where appropriate, minimize the duplicate funding for these services; and
- assess the actual needs of newcomers to confirm the appropriate mix of services it should fund and allocate funding based on this need.

MINISTRY RESPONSE

The Ministry agrees with this recommendation and is working to assess newcomer needs and to reduce service duplication, where appropriate.

The Ministry is committed to continuing to work with the federal government to minimize duplicate funding of settlement and integration services, where appropriate. Co-ordination with the federal government will be enhanced through the Settlement Memorandum of Understanding (Memorandum) being negotiated as part of the new Canada-Ontario Immigration Agreement. The Memorandum will guide bilateral collaboration over the next five years in areas such as sharing of information on needs, best practices and outcomes to support effective co-ordination of federal and provincial programs to maximize investments, improve service delivery, reduce duplication and address service gaps.

The Ministry is committed to ongoing assessment of newcomer needs and services to confirm the appropriate mix of services needed to meet the settlement and integration needs of newcomers. The Ministry will review its approach to program evaluation, needs assessment and information use to optimize program design and delivery, and to allocate funding based on need. In addition, in 2017, based on the program's success, a $7 million annual increase was approved for the Ontario Bridge Training Program.

4.1.3 Ministry Does Not Consistently Select and Fund Service Providers Best Able to Deliver Services to Newcomers

Unlike language training where the vast majority of funding is provided to school boards based on the number of clients each board enrols in its courses, funding for bridge training and newcomer settlement is awarded to service providers based on the Ministry's assessment of their submitted proposals. These proposals are assessed against a number of criteria that include the applicant's experience in delivering the proposed services; budget (including whether the budgeted expenses are reasonable and how resources will be used); summary of program activities; demonstrated need for the proposed services; and proposed targets for services. Newcomer settlement proposals include targets for the unique number of individuals to be served and the number of client visits. Bridge training proposals include targets for the number of participants who apply, access, complete and obtain employment after completing the program.

Based on our review of assessed proposals for bridge training and newcomer settlement, we found that the Ministry did not always select and fund the proposals that scored highest, in favour of continuing to fund existing providers that may not have scored as high. The Ministry did not consistently provide an appropriate rationale for why it funded lower-scoring service providers. Our specific concerns relating to each program are described in the following sections.

Newcomer Settlement

- **All existing service providers were renewed regardless of their proposal score.** We noted that all 95 service providers already receiving newcomer settlement funding that submitted a proposal for funding in 2015 were awarded a contract to continue to provide services in the 2016/17 and 2017/18 fiscal years. Conversely, we found that just two of 100 new applicants were awarded a contract even though the top 20 scoring applicants that were rejected received an average score of 81%, which was significantly higher than the bottom 20 scoring approved applicants, whose average score was just 53%.
- **Explanation for not funding high-scoring proposals from new applicants was unclear.** In some instances, higher-scoring proposals to provide newcomer settlement services in similar geographic areas were rejected in favour of lower-scoring proposals. We noted there was no clear rationale documented to demonstrate why these decisions were made, and the Ministry was unable to provide us with an explanation. We noted that scoring discrepancies were in some cases significant. For example:
  - One new applicant to which the Ministry assigned a score of 84% was not awarded a contract, whereas four other service providers in a similar geographic area that scored between 54% and 75% were awarded a contract—all four were already under contract providing newcomer settlement services.
  - Another new applicant to which the Ministry assigned a score of 75% was not awarded a contract, whereas two other service providers in a similar geographic area with scores of 55% and 56% were awarded a contract—both were already under contract providing newcomer settlement services.
- **The Ministry did not establish minimum scores required for applicants to qualify for funding.** Based on our review of proposals, we found that five proposals were approved for funding with an overall score of 50% or less, including one proposal that scored as low as 29%. In all five cases, the service provider submitting the proposal was already under contract providing newcomer settlement services. We noted that in the case where the service provider scored 29%, the Ministry ceased funding only after the municipal government pulled its funding from the service provider. At the time the service provider's proposal was evaluated, the Ministry assigned the proposal just 24% for its capacity to deliver newcomer settlement services.

Bridge Training

- **New applicants to provide bridge training are rarely awarded contracts regardless of their qualifications to deliver services.** In response to the most recently completed call for proposals (in 2013) for programs focused on employment and licensure, 17 of 18 proposals to renew an existing bridge training program were approved, compared to just five of 53 applications for a new program. We noted that the Ministry's prior request for proposals (in 2012) was limited to existing program providers already receiving funding.
- **The Ministry did not establish minimum scores required for applicants to qualify for bridge training funding.** Similarly to newcomer settlement, the Ministry had not established a minimum score that proposals for bridge training had to achieve to be approved for funding. The Ministry advised us that it did not set a minimum threshold to give it flexibility to consider additional factors, including geographic priority areas and demographic groups (such as francophones, identified as a targeted demographic group

in Ontario's 2012 Immigration Strategy). Our review of approved proposals found that five of the 17 approved proposals to renew existing programs scored less than 50%, including one that received a score of just 27%. The Ministry did not provide a clear rationale for renewing this program, even though the evaluators identified that the applicant did not demonstrate significant employment outcomes and the budget was confusing. Following its approval, just 27% of those who completed this program obtained employment commensurate with their education and experience in their field. A total of 32% obtained employment, including employment in a related field, compared to the average of 71% among all bridge training program contracts completed in the last three years. The Ministry renewed another program to which its evaluators assigned a score of just 37% and noted that there was no evidence of employer commitment to the program, and that employment outcomes were weak. Although the Ministry advised us that it renewed the program because there were no other bridge training services in that geographic area, a clear rationale to support the renewal of the program was not documented. Following its approval, just 18% of those who completed the program obtained employment commensurate with their education and experience in their field (32%, if those who obtained employment without completing the program are considered), and a total of 26% obtained employment, including employment in a related field (40%, if those who did not complete the program are considered).

- **High-scoring new applications were not funded in order to renew lower-scoring proposals.** We found that some applications for new bridge training programs were not funded and were instead placed on a wait list that was dependent on the availability of further funding, even though they scored higher than existing applicants whose training programs were renewed. For example:
  - Two new applicants that Ministry evaluators scored at 55% and 68% were put on hold and not funded due to concerns related to duplication of existing bridge training programs. However, it was unclear whether existing programs were successfully meeting the training needs of newcomers in those fields. As previously noted, five of the 17 existing bridge training programs the Ministry chose to renew scored less than 50%, including one that scored just 27%.
  - In another instance, one application that was not funded was scored 73% by the Ministry, and its evaluators assigned it a good score for its demonstration of labour market demand and strategies to mitigate risk, including concerns about adequate settlement of newcomers in its geographic area. However, we noted that the rationale for not funding the program at that time was inconsistent with the Ministry's scoring of the application, specifically highlighting concerns about labour market demand and the ability of the program to attract a sufficient number of participants in its geographic area.
- **Service providers have little time to prepare new proposals for bridge training programs.** We found that both in 2017 (when our audit fieldwork was concluding) and in 2013 when the Ministry last requested proposals for new bridge training programs that target employment and licensure, the Ministry provided only two months for applicants to prepare and submit proposals for new programs. The service providers we spoke to expressed concerns, including that the time provided was not sufficient, the timing of the requests for proposals (which were issued in the summer) made preparation more challenging, and that it would be helpful if the

Ministry provided notice in advance of issuing a request for new proposals. Ministry management similarly agreed that it would be helpful to provide advance notice and more time to prepare proposals for new programs.

4.1.4 Funding Decisions Do Not Consider Cost-Effectiveness of Programs

While the Ministry's criteria for assessing proposals for bridge training and newcomer settlement funding include an assessment of the quality of the budget submitted by each applicant, the Ministry does not assess the cost-effectiveness of proposals against pre-established targets. We found that service costs per person vary significantly among providers delivering these services, as described in the sections that follow.

Newcomer Settlement

We reviewed the contract targets and approved funding for newcomer settlement service providers, and noted that the contracted average cost per client visit across all core service providers in 2016/17 was $61. However, we found that the contracted cost differed substantially across service providers, from a low of $19 to a high of $354 per visit. The Ministry advised us that because of geographic differences and differences in client needs between service providers, it does not compare the differences in costs per client visit to assess their reasonableness when it contracts service providers.

Bridge Training

We also reviewed targets and approved funding for bridge training program contracts that included training for participants and that had expired in the last three years. We identified that, based on dividing the total contract amount by the targeted number of participants expected to obtain employment, the average cost per participant was targeted at $11,900. We noted that the cost differed substantially across different programs, from a low of $3,100 to a high of $44,700. It should be noted that bridge training programs target different occupations and differ in their complexity, length of training, and thus cost. Because of these differences, the Ministry advised us that it does not compare the participant costs of programs. However, since bridge training funding is limited, programs with higher participant costs limit the number of newcomers that the Ministry can assist. Therefore, the Ministry should try to analyze these costs to ensure value for money is achieved with the available funding.

RECOMMENDATION 2

To better ensure that it allocates funding to the highest scoring service providers based on the needs and outcomes of the newcomers they serve, we recommend that the Ministry of Citizenship and Immigration:

- establish a minimum score that all service providers have to exceed to be eligible for continued or new funding so that funding is not provided where significant concerns have been identified;
- document the rationale for its selection and non-selection decisions;
- extend the length of time between notification and submission of bridge training proposals to provide service providers with sufficient time to prepare proposals for programs that address the employment and licensure training needs of newcomers; and
- include criteria in its assessment of service provider proposals for funding that assess whether the requested funding is commensurate with the value of services to be provided.

MINISTRY RESPONSE

The Ministry agrees with this recommendation and the need to ensure that funding is allocated based on newcomer needs and outcomes.

The Ministry will review its funding and call for proposals process to provide adequate time to prepare bridge training proposals. The Ministry will also review its assessment tools, processes and criteria to include minimum thresholds to be eligible for funding, value-for-money and cost-effectiveness factors, and service priorities such as geographic distribution, priority populations and service continuity in areas with demonstrated need.

Staff training will also be enhanced to ensure effective use of application assessment tools and processes, including better documentation of decisions.

4.2 Ministry Does Not Consistently Monitor Service Providers to Confirm That Services Are Delivered Cost-Effectively

We found that the Ministry does not validate the accuracy of service data and most financial information it collects and uses to monitor and fund service providers. In addition, we found that the Ministry does not sufficiently monitor whether newcomers have access to services, and it does not consistently monitor whether service providers meet their contracted service targets. The Ministry also does not compare service provider–reported service and financial data to assess whether providers are operating in a cost-effective manner, or follow up in instances where they may not be.

4.2.1 Ministry Does Not Validate Service Data and Most Financial Information Received from Service Providers

While the Ministry collects service and financial data from all service providers, it does not have sufficient processes in place to validate the accuracy of this data. Specifically, we found that:

- The Ministry has not addressed issues identified in a 2013 Ministry review surrounding concerns about the accuracy of service and financial data collected from service providers. An internal Ministry review and analysis conducted in 2013 identified concerns about the quality and accuracy of data collected from service providers. The review noted that data integrity was questionable, since there were no validation or verification processes in some program areas. It also noted that the Ministry did not have data collection standards, and does not have any standards or processes in place to enable it to know that service information reported by service providers is correct. The Ministry has not yet implemented steps to address these identified concerns.
- The Ministry does not validate the accuracy of any of the service data reported by service providers. The accuracy of service data is important because the Ministry could reduce funding for service providers who fall significantly short of their service targets (as funding is provided to service providers in increments during the course of their multi-year contracts). For example, with respect to language training (which accounted for almost 60% of total Ministry funding to service providers in 2016/17), the majority of funding is provided to school boards based on the enrolment they report to the Ministry multiplied by a set rate. However, the Ministry does not have a process in place to audit the enrolment numbers reported by school boards. By comparison, as identified in **Chapter 3, Section 3.08** of our report, although we identified weaknesses, the Ministry of Education does have a process to audit the reported enrolment information it uses to fund school boards, and these audits have resulted in significant funding adjustments.
- The majority of expenses reported by service providers are not audited. While service providers in all of the programs we reviewed are required to report revenues and expenditures to the Ministry, only service providers delivering bridge training programs are required

to provide audited program-specific revenues and expenses to enable the Ministry to assess whether funds are spent for their intended purposes. Language training and newcomer settlement service providers that received almost 70% of total Ministry transfer payments in 2016/17 do not have to provide audited program-specific revenues and expenses. As a result, we noted the following concerns with respect to the accuracy of information reported to the Ministry:

- We found that in 2016/17, about 45% of newcomer settlement service providers reported expenditures that directly matched the funding provided by the Ministry. While effective budgeting can minimize differences between revenues and expenses, a direct match is unrealistic. One of the newcomer settlement service providers we visited told us that it reported expenses that directly matched funding provided by the Ministry instead of actual expenditures because that is what it believed the Ministry expected.
- As identified in **Section 4.2.4**, the surplus/deficit position school boards reported in delivering language training differs significantly even though they are funded based on their enrolment multiplied by a set dollar amount. These substantial differences in unaudited school board revenues and expenses highlight the need to validate revenues and expenses and/or enrolment.

RECOMMENDATION 3

So that the Ministry of Citizenship and Immigration (Ministry) has accurate and reliable information to monitor the settlement and integration services it funds and can make informed decisions on its programs, we recommend that the Ministry implement a process to periodically validate the accuracy of service and financial information reported by service providers.

MINISTRY RESPONSE

The Ministry agrees with this recommendation.

Recognizing the importance of monitoring its transfer payment programs effectively, the Ministry has placed increased focus on program accountability with the recent creation of the Program Evaluation and Performance Unit. The Ministry will explore best practices and implement a process to periodically verify the accuracy of the service and financial information reported by service providers.

4.2.2 Ministry Does Not Have Sufficient Information to Properly Monitor Access to Services

With the exception of the language training program, the Ministry does not collect wait times for the services it funds to help assess if newcomers are served on a timely basis.

Although the Ministry has the ability to produce reports on wait lists for language training, it advised us that it can only do so at a specific point in time and cannot produce reports demonstrating average wait times over a period of time. For example, it cannot determine the average wait time for learners in the most recent school year. Based on the limited point-in-time information the Ministry does collect (as described in **Section 4.1.2**) and feedback from the school boards we surveyed, wait times do not seem lengthy.

While the Ministry does not regularly collect specific information on the accessibility of its settlement and integration services, service providers we visited that deliver newcomer settlement services indicated that they were generally able to provide services to newcomers who sought help in person on the same day, and they accommodated newcomers who arranged appointments in advance within three weeks.

However, recent reports, including Ministry-commissioned external evaluations of its language

training and newcomer settlement services, identified accessibility concerns. For example:

- A Ministry-commissioned external evaluation of its language training program identified that newcomers face multiple barriers to accessing training, including a lack of child care, transportation and appropriate class times. Specifically, 76% of school board representatives surveyed as part of the evaluation indicated that a lack of child-care services was likely a barrier for immigrants who wish to attend language training, and 74% indicated that lack of transportation to attend class was also a barrier.
- An external evaluation of newcomer settlement services commissioned by the Ministry identified that only 8% of newcomer settlement service participants indicated they experienced problems getting service. Although 8% seems low, the evaluators cautioned that the actual proportion is likely greater, as those surveyed were the individuals who were able to access and get services. The most commonly cited problems were transportation issues, lack of child care, inconvenient hours and wait times.
- A 2012 study commissioned by the Ontario Council of Agencies Serving Immigrants identified that 62% of surveyed newcomers reported encountering problems getting settlement services in their area. A lack of transportation and distance to service providers were the most commonly identified problems.

4.2.3 Ministry Does Not Consistently Follow Up with Service Providers Who Fail to Meet Targets

Although the Ministry has processes in place to monitor whether service providers meet their service and performance targets for both the bridge training and newcomer settlement programs, we found that it did not consistently follow up with service providers when they fell short of their targets, to assess if corrective action was needed. We describe our specific concerns about each program in the following sections.

Newcomer Settlement

Newcomer settlement service providers are required to provide a rationale when they fail to meet their service targets (such as the number of unique individuals served) by 10% or more, and Ministry staff are expected to review such differences and assess the rationale provided. We found that in 20% of the cases we reviewed, service providers missed their service targets by more than 10%, but there was no evidence to demonstrate that the Ministry followed up to determine whether the reasons for the variances were reasonable. For example, one service provider that provides services at multiple locations did not report the number of individuals served at one of its locations, and did not provide an explanation. The Ministry did not identify this on its review form.

Newcomer settlement service providers are also required to provide client profile data to help the Ministry better understand the composition of the newcomers it is serving, including a breakdown by gender, citizenship status, and number of years in Canada. We found that, in 45% of the cases we reviewed from 2015/16 and 2016/17, service providers provided either incomplete profile data or no profile data at all. There was no evidence that the Ministry followed up to obtain this data.

Bridge Training

Bridge training service providers are required to report on the status of their service targets, including the number of participants who have completed their program, obtained employment in their field or in a related field, and obtained licences in their profession. We reviewed the status reports submitted to the Ministry by a sample of service providers in 2015/16 and 2016/17 and identified that service providers often missed their

targets, but the Ministry did not always follow up to assess if the results were reasonable or if corrective action was needed. Specifically, we found that:

- 90% of the programs in our sample missed their employment and/or licensure targets by more than 10% in 2015/16, but there was no evidence that the Ministry followed up to assess the reasonability of the results, and/or to take corrective action. For example, three bridge training programs missed their employment target by more than 50%, but there was no evidence that the Ministry assessed these results to determine if they were reasonable.
- Although the Ministry implemented a process in the 2016/17 fiscal year that required Ministry employees to review whether bridge training programs were meeting their employment and licensure targets, and to ensure that reasonable explanations and plans to address shortcomings were obtained when they were not, we found this was not always the case. More than 75% of bridge training programs in our sample missed their employment and/or licensure targets by more than 10%. In more than 40% of these cases, the Ministry obtained adequate explanations from service providers. However, in the rest of the cases we evaluated, either the Ministry had yet to complete its review, or it had not obtained an adequate explanation for the results. For example, one bridge training program had missed its employment targets by 33% over the last three years, but there was no evidence the Ministry identified and assessed these results to determine if they were reasonable or required follow-up and/or corrective action.

4.2.4 Ministry Does Not Compare Service Providers to Confirm That They Operate Cost-Effectively

The Ministry does not compare service and financial data reported by service providers to assess whether they are operating in a cost-effective manner, and to follow up in instances where differences suggest that they are not. In addition, the Ministry is not utilizing its information systems to enable it to undertake such comparisons.

Ministry Does Not Sufficiently Utilize Information Systems to Help Assess the Cost-Effectiveness of Service Providers

With the exception of language training, where detailed service information is recorded in the Ministry's IT systems, including with respect to individual learner progression in learning English or French, the Ministry is not sufficiently using its IT systems to aggregate service and financial information reported by service providers. As a result, the Ministry is not able to generate reports that compare service and financial information between service providers to identify significant differences.

Ministry Does Not Follow Up on Significant Cost Differences between Service Providers

Although the Ministry had manually aggregated much of the service and financial information reported by service providers, we found that it does not use this information to identify and assess significant cost differences between service providers to help identify opportunities to improve the cost-effectiveness and efficiency of its services.

We reviewed service and financial information aggregated by the Ministry at our request, and identified significant cost differences between service providers that should be followed up on to determine whether they are reasonable or where corrective action should be taken. Specifically, we found that:

- **The cost per client visit between newcomer settlement service providers differs substantially.** In 2016/17, the average cost per client visit for core newcomer settlement services was $47, and ranged from a low of $12 to a high of $216.

- **The cost per participant differs drastically between bridge training programs.** Based on contracts completed in the last three fiscal years that included a training component for participants, we found substantial differences between bridge training program costs when comparing total Ministry transfer payments to the number of individuals who completed training; obtained employment in their field or in a related field after completing training; and became licensed in their profession after completing training. These differences are illustrated in **Figure 11**.
- **School board expenses differ significantly even though they are funded based on a set rate.** School boards are funded to deliver language training based on the enrolment they report multiplied by a set rate, irrespective of the revenues and expenses they incur. We analyzed revenues and expenses for language training reported by school boards for the 2015/16 school year and identified substantial differences in the financial positions of different school boards. Specifically, we found that:
  - the percentage of each school board's surplus/deficit ranged from a high of a 35% surplus to a low of a 53% deficit;
  - across all school boards, non-staff-related expenses reported averaged 19% of total expenses, and ranged from a low of 0% to a high of 67%; and
  - the surplus or deficit position of some school boards fluctuated wildly between years. For example, one school board's deficit ranged from a low of 1% to a high of 42% between the 2011/12 and 2015/16 school years. During this same period, another school board's financial results ranged from a deficit of 34% to a surplus of 40%.

Figure 11: Average Participant Costs by Bridge Training Program

Source of data: Ministry of Citizenship and Immigration

Bridge Training Programs	Cost per Individual Completing Training ($)	Cost per Individual Employed ($)	Cost per Individual Licensed ($)
Average	6,800	11,200	15,200
High	40,000	106,100	123,800
Low	1,800	3,600	3,400

RECOMMENDATION 4

So that settlement and integration services provided to newcomers are cost-effective, accessible and timely, and effectively meet the needs of newcomers, we recommend that the Ministry of Citizenship and Immigration:

- periodically collect relevant information (such as on wait times and barriers to accessing services) from service providers, newcomers and other relevant stakeholders and, where necessary, take corrective action;
- record all relevant service and financial information in its information systems to enable periodic monitoring of services and service providers;
- identify instances when service providers do not meet their contracted service and financial targets, follow up to assess the reasonableness of deviations from targets, and take corrective action where necessary; and
- periodically review and assess the significant differences between service provider costs to assess their reasonability, and to take action when they are not reasonable.

MINISTRY RESPONSE

The Ministry agrees with this recommendation and acknowledges the need to assess cost-effectiveness, accessibility and timeliness of services. As a result, the Ministry is taking steps to enhance data analytics, performance measurement, accountability and oversight.

The Ministry is implementing a multi-year data analytics strategy that will guide collection and use of data from existing data sources, service providers, newcomers and other stakeholders. The goal of the strategy is to incorporate timely, reliable and quality data to support evidence-based decision-making to achieve better outcomes.

In the next year, the Ministry will be developing plans and systems for maximizing use of its IT and data collection systems for recording and analyzing service information (including on wait times and accessibility), and financial information for all its transfer payment programs. This will enable the Ministry to identify unmet targets and take corrective actions as needed. The Ministry will review and enhance its business processes, including mechanisms for escalating issues of poor performance, and will enhance staff training to ensure understanding and adherence to the Ministry's monitoring procedures.

The Ministry will also explore options and models for assessing service provider costs with a view to determining reasonable cost ranges by program/service type against which service providers will be periodically assessed.

4.3 Performance Measurement Is Insufficient to Enable Management to Make Informed Decisions and Assess Whether Newcomers Are Successfully Settled

The Ministry has not defined what constitutes a successfully settled and integrated newcomer to enable it to assess whether it is meeting its objective to successfully settle and integrate newcomers. In addition, the Ministry does not collect sufficient performance information about its services, and does not always analyze the performance information it does collect, to assess whether they are working. It also has not maintained consistent performance indicators from year to year to enable it to measure the progress of newcomers, as well as the effectiveness of its services in helping newcomers to settle and integrate.

4.3.1 Ministry Has Not Defined What Constitutes a Successfully Settled Newcomer Who No Longer Needs Services

Although the Ministry's goal is to successfully settle and integrate newcomers socially and economically, it has not established milestones and time frames to determine when this goal is reached. In other words, the Ministry has not determined at what point a newcomer is settled and integrated, and thus no longer "new." We noted that while the federal government has also not defined what constitutes a successfully settled and integrated newcomer, it does not fund settlement services for immigrants who have obtained their Canadian citizenship. Its rationale is that, generally, newcomers should be settled and integrated by the time they obtain their citizenship. Conversely, naturalized Canadian citizens are still eligible for Ministry-funded settlement services because the Ministry believes that many newcomers still require integration services after they have become Canadian citizens.

Ministry management indicated that establishing appropriate milestones (and associated time frames to achieve them) would be helpful in periodically measuring the progress of newcomers in settling and integrating. Similarly, the newcomer settlement service providers we visited agreed that it would be beneficial to periodically measure the settlement and integration progress of newcomers. Having these measures would also highlight that it can take a long time for newcomers to become settled, and some newcomers need more help to do so. For example, we noted that:

- **Many immigrants require language training even after many years in Canada.** Twenty-five percent of newcomers who attended Ministry-funded language training

in the past school year had been in Canada for more than 10 years, and 45% had been in Canada for five years or longer.

- **Almost half of newcomers taking language training who were in Canada long enough to apply for citizenship did not have the English and French language skills to do so.** Permanent residents must live in Canada for at least four out of six years before applying for citizenship—three out of five years as of October 2017. However, we found that in the 2015/16 school year (the most recent completed), just 52% of language learners who met these criteria were at the level of listening and speaking proficiency (Canadian language benchmark 4) required to obtain citizenship.
- **Many immigrants still require the assistance of newcomer settlement agencies after many years in Canada.** Forty-six percent of clients served in newcomer settlement services in 2016/17 had been in Canada for more than five years, and 40% of clients had already obtained their Canadian citizenship.

4.3.2 Performance Indicators That Measure Progress of Newcomers and Effectiveness of Services Have Changed from Year to Year

The Ministry has not had consistent performance indicators to measure the effectiveness of its settlement and integration services. Between 2012/13 and 2014/15, the Ministry had no performance indicators at all; in 2015/16 it had 27 performance indicators; and it had just one performance indicator in 2016/17. In addition, these performance indicators did not always include targets, and the indicators changed from year to year, limiting the Ministry's ability to measure its progress.

We noted that as part of its 2017/18 plans, the Ministry established four new performance indicators it intends to track results on in the future. They are described in **Appendix 2**. The Ministry has identified targets and time frames for these indicators, but it will take at least two years to begin to assess whether any of its targets have been achieved. However, as described in the following section, we found that the performance indicators will not sufficiently monitor the settlement and integration outcomes of newcomers.

4.3.3 Ministry Does Not Consistently Monitor the Performance of Its Services and Service Providers to Facilitate Corrective Action Where Needed

The Ministry does not consistently monitor the performance information it collects from service providers that deliver settlement and integration services to identify instances that require follow-up and corrective action.

As noted in **Section 4.3.2**, the Ministry has not had consistent performance indicators to help measure the effectiveness of its settlement and integration services. Nevertheless, we noted that Ministry staff responsible for individual services have been collecting some performance information from service providers. However, the Ministry has not established a systematic process for collating and analyzing this information and could not demonstrate that senior management was using this information to monitor and assess the effectiveness of the Ministry's settlement and integration services and make informed decisions.

We reviewed the performance information and results for language training, newcomer settlement and bridge training programs and found that the Ministry did not always monitor performance to identify areas that clearly required follow-up and/or corrective action. We identify our specific concerns relating to each program in the following sections.

Language Training

Although the Ministry collects detailed information from school boards on learner progress in attaining proficiency in English and French, it is not using

this information to identify, follow up, and determine if action needs to be taken where significant performance differences exist.

The Ministry has two performance indicators in place for language training focused on learner outcomes:

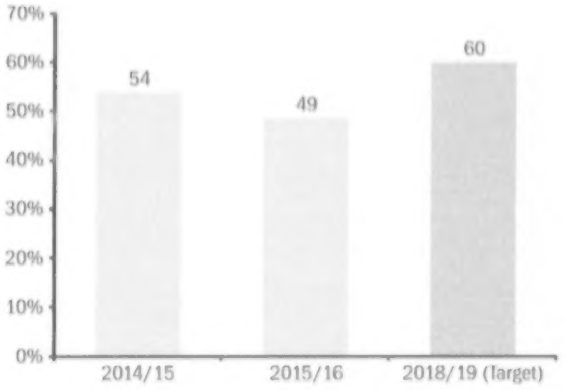
- percentage of learners attending at least 100 hours of training who progressed by at least one Canadian language benchmark level in at least one skill area (reading, writing, listening or speaking) within a school year; and
- percentage of learners surveyed who found language training helpful in achieving their goals.

The Ministry cautioned about the use of the data it collects, noting that learner progress assessment practices can differ between instructors and school boards, and that full implementation of its standardized assessment practices is not due until the 2017/18 school year. However, our analysis of Ministry data as well as client feedback obtained through surveys still identified learner results that should be followed up, including the following examples:

- **Less than half of all learners are showing progress in learning English or French.** The Ministry's target is for 60% of learners who received at least 100 hours of language training in a school year to progress by at least one Canadian language benchmark in at least one skill area within a school year by 2018/19. However, in the most recent school year (2015/16), just 49% of learners met this target, compared to 54% in 2014/15, as illustrated in **Figure 12**.
- **Learner progress at individual school boards differed substantially**, ranging from no learners who received at least 100 hours of language training progressing in a school year at one school board, to 78% progressing at another school board. At one in three school boards, we found that less than 40% of learners progressed by at least one Canadian language benchmark in a school year.

Figure 12: Percentage of Learners Progressing by One Canadian Language Benchmark in One Skill Area

Source of data: Ministry of Citizenship and Immigration



Note: The Ministry has set a target for 60% of language learners who received at least 100 hours of language training in a school year to progress by one Canadian language benchmark level in at least one skill area (reading, writing, listening and speaking) in a school year by 2018/19.

- **Learner progress is still low among participants who received more instruction.** The Ministry measures learner progress based on the percentage of learners attending at least 100 hours of training who progressed by at least one Canadian language benchmark level in at least one skill area (reading/writing/listening/speaking) within a school year. However, in a 2016 external evaluation of the language training program commissioned by the Ministry, school board representatives reported that the mean time to progress in English in each of the four skills areas was significantly longer and ranged from 200 to 250 hours. We found that in the 2015/16 school year, across all school boards, just 21% of English learners with 250 or more hours of instruction progressed by an average of one Canadian language benchmark level across the four skill areas. Furthermore, we found that learner progress differed across school boards, ranging from no learners progressing by an average of one Canadian language benchmark to 71% of learners progressing. At almost half the school boards, less than 20%

of learners progressed by an average of one Canadian language benchmark. Some school boards we spoke to told us that achieving this result can take longer than 250 hours. Nevertheless, we found that across all school boards only 27% of English learners with 500 or more hours of instruction achieved this result. As well, we found that just 33% of English learners with 800 or more hours of instruction progressed by an average of one Canadian language benchmark.

- **Many language training learners report their objectives have not been met.** The last Ministry survey of language training learners (in 2013) reported that 88% of learners found language training helpful in achieving their goals. However, current and past language learners surveyed as part of a 2016 external evaluation of the language training program identified that the satisfaction rate may not be a good indicator of whether language training helped them meet their education and employment objectives. For example, only 58% of English learners and 37% of French learners indicated their language improved enough to get a job. In addition, only 59% of English learners and 41% of French learners indicated their language improved enough to get more education or training.

Newcomer Settlement

The Ministry does not periodically measure and monitor the effectiveness of its newcomer settlement services. It has just one outcome-based performance indicator related to newcomer settlement services—the percentage of clients surveyed who reported being better able to make informed decisions about life in Ontario after receiving settlement services.

The last time clients were surveyed (in 2013), 89% reported being better able to make informed decisions after receiving settlement services. However, no surveys have been conducted since then.

Bridge Training

Although the Ministry collects information on participant completion, employment and licensure outcomes from bridge training service providers, it does not always use this information to identify and follow up on significant differences in client outcomes to assess if they are reasonable and/or require corrective action.

The Ministry's service-specific performance indicators for bridge training focusing on client outcomes include:

- percentage of clients that completed a bridge training program who become licensed in their regulated profession; and
- percentage of clients that completed a bridge training program who get a job in their field or in a related field.

Our review of data collected by the Ministry on these indicators identified the following:

- **The Ministry does not compare the results of bridge training programs to one another.** We identified significant differences in the results among bridge training service provider contracts completed in the last three years that the Ministry has not followed up on to assess if they are reasonable. We noted the following differences:
  - **Employment rates between bridge training programs differ significantly.** While the average employment rate among all bridge training programs was 71%, this includes several programs that do not include actual training for participants. Instead, these programs include a variety of supports to assist participants to obtain employment, such as referrals to employment services and licensing bodies, peer mentorship, and encouragement of employers to hire newcomers. Thus, results are not directly comparable. The average employment rate among programs that did include training for newcomers was 61%. However, one in five of these programs

reported that less than 40% of those who completed training obtained employment.

- **Licensure rates among participants completing bridge training programs are low and differ significantly between programs.** We found that the average licensure rate among all bridge training programs that include training was 48%, although one-quarter of bridge training programs reported that less than 30% of those who completed training obtained their licence. Ministry explanations for this discrepancy include that participants often require a significant amount of time to obtain a licence after completing their program, and also that when participants obtain their licences after they complete the program the Ministry may no longer be obtaining information on their outcomes. However, while these explanations are reasonable, such differences should be followed up on to assess if they indicate problems at certain service providers. We also noted that these results are significantly lower than the 64% who were found to have obtained their licence after completing their bridge training program in a 2016 external evaluation commissioned by the Ministry. This evaluation, however, captured results from participants who completed the programs before the end of 2014 and thus may have allowed them more time to obtain their licences.
- **Information reported on employment and licensure results does not provide sufficient information to accurately measure results.** The Ministry collects employment and licensure results from service providers based on the number of individuals who have completed their course and obtained employment and/or licensure each fiscal year, instead of consistently collecting results at set intervals after participants complete training (such as one year and two years after completion). As a result, the percentage of those who are reported to have obtained employment or licences can be misleading, as they are not necessarily the same participants who completed training that year. The Ministry does not continue to collect information on employment and licensure from programs once contracts expire, and thus it does not have the complete employment and licensure outcomes of the program's participants.

4.3.4 Ministry's Performance Indicators Are Not Sufficient to Monitor Settlement and Integration Outcomes

As described in **Appendix 2**, the Ministry has put in place four new performance indicators including the rates of newcomer employment and unemployment relative to other Ontarians, acquisition of language skills, and Ontario's retention of newcomers. However, these indicators may not be sufficient to monitor the settlement and integration outcomes of the newcomers it serves. Specifically:

- **Ministry performance indicators do not measure key aspects of integration, including health, housing and education.** As noted in **Section 4.3.1**, the Ministry has not established settlement and integration milestones and time frames for their achievement for all newcomers. Conversely, we noted that the Ministry's Syrian Refugee Resettlement Secretariat (now Refugee Resettlement Secretariat) developed a performance measurement framework with performance indicators that it plans to track specific to Syrian refugees, to measure this group's settlement and integration progress with a broader lens. Although targets, time frames and definitions for these indicators have yet to be established, the Secretariat plans to measure refugee progress across four dimensions: settlement and integration, health, education, and economics (as described in **Appendix 4**). Cabinet expects the Ministry to implement this framework and

measure the progress of Syrian refugees for a minimum of five years, and report back to Cabinet on the effectiveness of the framework and its applicability to other vulnerable populations. The Ministry's senior management agreed that their performance indicators are lacking, and additional performance indicators for all newcomers similar to those included in the Secretariat's framework would be useful. In addition, Ministry management indicated that performance information on services provided to newcomers by other Ministries would also be useful to help measure the settlement and integration successes of newcomers.

- **Ministry employment targets are not detailed enough to monitor newcomer employment and inform policy and programming decisions.** The Ministry has a set target for the rate of unemployment among immigrants landing in the last 10 years: it is to be no more than 40% higher than that of their Canadian-born counterparts. However, we noted that the Ministry has not set targets that monitor the difference in the unemployment rate at different dates. For example, we noted that in 2016 the unemployment rate among Ontario newcomers who had been in Canada for five or fewer years was 80% higher than that of those born in Canada. By comparison, the unemployment rate for Ontario newcomers living in Canada for more than five to 10 years was just 40% higher than those born in Canada.
- **The Ministry's performance indicator for newcomer employment does not include their income levels.** According to the 2011 National Household Survey, almost 34% of Ontario newcomers who had been in Canada for less than five years were classified as having low incomes. In contrast, just 19% of Ontario newcomers who had been in Canada for five to 10 years had low incomes, and just 12% of Canadian-born Ontarians had low incomes.
- **There is no indicator to measure the number of newcomers receiving social assistance.** While the Ministry has established a performance indicator that compares employment rates of newcomers to their Canadian-born counterparts, it has not established an indicator to measure what happens to newcomers who do not obtain employment. As described in **Section 4.6**, over the last 10 years, those born outside of Canada have accounted for about one-third of all Ontario Works social assistance cases and received approximately 40% of all Ontario Works benefits paid.
- **Ministry learning targets for language training provide little insight into whether newcomer language training goals are met.** The Ministry is targeting 60% of language learners who took at least 100 hours of language training to progress by one Canadian language benchmark level in at least one skill area in a school year by 2018/19. However, it has not put in place performance indicators and targets to determine whether learners are making sufficient progress in language training to meet their academic and employment goals. Ministry management agreed that measuring whether newcomers make sufficient progress in their language training to meet their specific academic and employment goals would be helpful.
- **Ministry language training indicators do not track the dropout rate and reasons for it.** The Ministry has not established a target for course completion. A survey of language training participants by an external evaluator found that 52% of English and French language learners did not complete their courses, for reasons that included not having enough time, or working; family responsibilities; classes that were boring; classes that were too easy; and transportation challenges.

RECOMMENDATION 5

To help determine whether the Ministry of Citizenship and Immigration's (Ministry's) settlement and integration goals for newcomers are met, and to enable the Ministry to assess the effectiveness of the settlement and integration services it funds, we recommend that the Ministry:

- establish settlement and integration milestones for newcomers and reasonable time frames for achieving such milestones to measure against;
- establish performance indicators and targets that provide sufficient information to help the Ministry measure the progress of newcomers and the outcomes from specific services provided to newcomers in helping them successfully settle and integrate in Ontario; and
- consistently monitor the performance of its services and service providers to identify and take corrective action where targets and expectations are not being met.

MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation to establish settlement and integration milestones and time frames against which to measure newcomers' integration progress.

The Ministry notes that integration progress varies according to individual circumstances with factors such as age, family and social networks, and past experiences. The Ministry will study this recommendation and will build on the Syrian Refugee Resettlement Performance Measurement Framework being implemented by the Refugee Resettlement Secretariat, and leverage inter-ministerial and federal, provincial and territorial work under way. The Ministry will identify and establish settlement and integration milestones for newcomers, and reasonable time frames for achieving such milestones. The Ministry will also establish performance indicators and targets to measure the settlement and integration progress of newcomers.

The Ministry also agrees there is a need to develop a performance and outcomes measurement framework to measure newcomer outcomes from specific services. The Ministry is developing a multi-year data strategy and a new performance management strategy to help assess the effectiveness of its programs. The Ministry will work with the federal government, through the Settlement Memorandum of Understanding being negotiated as part of the new Canada-Ontario Immigration Agreement, to develop a joint evaluation framework for assessing outcomes of specific services.

The Ministry will use a risk-based approach to enhance the monitoring of its services and service providers to enable early warning signals for corrective action where targets and expectations are not being met.

4.4 Some Newcomers Are Not Aware of Available Settlement Services

Although the Ministry provides information on the settlement and integration services it funds on its websites, it does not have a formal communications strategy and has not assessed the effectiveness of its communications efforts to determine if it is meeting the needs of newcomers. We reviewed external evaluations commissioned by the Ministry on its settlement and integration services, spoke with newcomer settlement service providers, and reviewed Ministry service data on language training, and we noted that newcomers may not always be aware of the services available to them. Specifically:

- **Awareness of language training can be improved.** All the school boards that responded to our survey indicated that newcomers were somewhat or very aware of the

language training programs available at their school board. In contrast, a recent (2016) external evaluation of language training commissioned by the Ministry identified that both service providers (school boards) and learners noted that in many cases immigrants who have access to language training do not know about it, do not know they are eligible for it, and do not know that it is free of charge. For example, 60% of school board representatives surveyed indicated that lack of awareness of language training services was likely a barrier for immigrants who wish to access such services.

- **Newcomer settlement service providers report that awareness could be improved.** Four out of five newcomer settlement service providers we visited informed us that awareness of settlement services could be improved. One service provider estimated that 40% of newcomers were not aware of settlement services available. All the service providers we spoke to indicated that they primarily rely on word of mouth for outreach, and that further outreach activities would be helpful in reaching newcomers.
- **Newcomers may not be aware of services available to them because the Ministry's websites are only in English and French.** The Ministry provides information about the settlement and integration services it funds for newcomers, including services offered and their locations, on two websites. However, because the websites are available in only English and French, newcomers not proficient in either language may not find them useful to get the information they need. Our review of language training data collected from school boards further identified that language barriers may contribute to newcomers not being aware of available services. We analyzed language learner data collected by the Ministry and found that almost 30% of those enrolled in language training in the 2015/16 school year (the most recent completed) were at an average Canadian language benchmark level of two or less on a 12-level scale, indicating a very low level of language proficiency. As well, the 2016 external evaluation of language training included a survey of school board representatives and identified that 74% of respondents indicated that lack of information promoting language training services in the first language of newcomers is a reason why learners lack awareness of the program.
- **The Ministry has not assessed the effectiveness of its communications efforts to identify gaps and help ensure newcomers are aware of services available to them.** The Ministry does not have a formal communications strategy or a process in place to assess the effectiveness of its efforts to promote newcomer settlement services. For example, the Ministry supports the Ontario Council of Agencies Serving Immigrants with funding to develop and provide information online about relevant services available, such as health care, education and social services. However, similar to its own websites, the Ministry has not assessed the effectiveness of this arrangement along with the content being used in ensuring that newcomers are aware of the settlement and integration services available in Ontario. The Ministry also expects service providers to promote their settlement and integration services, but does not have a process in place to assess the effectiveness of the service providers' efforts.

RECOMMENDATION 6

To help ensure that newcomers are aware of available services that can help them successfully settle and integrate in Ontario, we recommend that the Ministry of Citizenship and Immigration:

- translate its relevant website and other key information about its settlement services into languages that are understood by newcomers;

- assess the effectiveness of its communications efforts to identify and take action on areas of weakness; and
- work with service providers to identify opportunities to further improve newcomer awareness of services in Ontario.

MINISTRY RESPONSE

The Ministry agrees with this recommendation and recognizes the importance of newcomers having access to information in their first language that could assist them in their settlement and integration efforts, or to become aware of the programs and services available to them. The Ministry will take steps to assess the effectiveness of its communication efforts to identify opportunities to improve newcomer awareness.

Going forward, the Ministry will assess and translate key general immigration information for the government's website, and work with service providers to increase outreach efforts to raise awareness of services among newcomers pre- and post-arrival.

4.5 Silos in Service Delivery Keep Provincial and Federal Programs from Realizing Their Full Potential to Help Newcomers

Although the Ministry and the federal government both provide similar services to help settle and integrate newcomers, there has been limited co-ordination to date to avoid duplication of the services they both provide.

Over the years, the Ministry has worked with the federal government in some instances to co-ordinate the settlement and integration services they provide to newcomers. For example, the Ministry collaborated with the federal government to fund language assessment centres that initially assess the language skills of all newcomers interested in language training and refer newcomers to both federal and Ministry-funded language training. In addition, the Ministry has worked with the federal government to secure over $40 million in federal funding between 2011/12 and 2016/17 for its bridge training programs. However, the Ministry and its federal counterpart do not exchange information on the services they provide, such as funding for specific programs, number of individuals served, wait times, and outcomes to help minimize duplication of services and to meet the needs of newcomers.

The Ministry previously had an agreement with the federal government to co-ordinate their respective settlement and integration services, although it expired in 2011 and has not been replaced. While the Ministry is negotiating a new agreement with the federal government, both parties advised us that the primary reason for the delay in reaching an agreement has been conflicting views on which party should be responsible for managing federal funding in Ontario. In the absence of an agreement, the Ministry advised us that action has yet to be taken on some key priorities identified by both parties, including:

- assessing current needs and determining priorities to develop a joint plan to guide services to newcomers;
- exploring ways to harmonize the delivery of federal and provincial settlement and integration services to eliminate duplication and respond to emerging needs; and
- developing and implementing a performance measurement strategy to guide ongoing joint performance data collection, and ensure that information is available to support future evaluation activities.

As noted in **Section 4.1.1**, a significant proportion of Ministry-funded language training learners and newcomer settlement clients are also eligible for federally funded services. Services to these individuals account for approximately $30 million, or 30% of Ministry funding provided to service providers to deliver settlement and integration services. In many cases, the same service providers deliver both federal and Ministry-funded services, indicating an opportunity for cost efficiencies.

RECOMMENDATION 7

To improve the efficiency of its settlement and integration services and the outcomes of the newcomers they are provided to, we recommend that the Ministry of Citizenship and Immigration work with the federal government to:

- put in place as soon as possible an agreement to co-ordinate their settlement and integration services to minimize duplication of services; and
- identify and share best practices in the delivery of settlement and integration services for newcomers.

MINISTRY RESPONSE

The Ministry welcomes this recommendation. Canada and Ontario have completed a Canada-Ontario Immigration Agreement, which will be signed in winter 2017–18. This framework agreement is legally binding and is a first step in creating better alignment and building a stronger partnership in the areas of planning, policy, operations and information sharing. The Agreement formalizes the collaboration between Canada and Ontario, and joint efforts in advancing shared priorities.

Co-ordination with the federal government will be enhanced through the Settlement Memorandum of Understanding (Memorandum) being negotiated as part of the new Canada-Ontario Immigration Agreement. The Memorandum will guide bilateral collaboration over the next five years, in areas such as sharing of information on needs, best practices and outcomes, to support effective co-ordination of federal and provincial programs to maximize investments, improve service delivery, reduce duplication and address service gaps.

4.6 Co-ordination between Ministries Has Been Inadequate to Help with Overall Integration of Newcomers

Even though other ministries provide services that may contribute to the settlement and integration of newcomers in Ontario, we noted that the Ministry has done little to formally co-ordinate with them, with the exception of a few cases. For example, the Ministry is participating in a new Adult Education Strategy led by the Ministry of Advanced Education and Skills Development through actions that include its commitment to sustaining funding for its bridge training program. In addition, the Ministry's former Syrian Refugee Resettlement Secretariat (Secretariat) led cross-government efforts to support the resettlement and integration of Syrian refugees in Ontario. As described in **Section 2.3.1**, the Secretariat consulted with organizations and individuals involved in resettling Syrian refugees to identify and make recommendations on opportunities for improving service delivery to the Ministry as well as other ministries. Although the Secretariat advised that specific action has yet to be taken, identified gaps and recommendations included:

- **Employment**—The Secretariat noted that refugees experienced numerous challenges in securing employment. It identified that Syrian refugees require innovative language, training and employment solutions for adults with low skills, limited literacy and language skills, and limited comfort with classroom learning. It recommended that the Ministry of Advanced Education and Skills Development evaluate pathways to service for its Employment Ontario programs and examine potential opportunities to support low-skilled refugee newcomers with low language skills to access targeted employment supports sooner.
- **Housing**—The Secretariat identified that accessing affordable housing has been a key challenge for refugees. It notes that in many cases housing costs exceed monthly income

support from the federal government and/or financial support from private sponsors. It has recommended that the Ministry of Housing consider the needs of refugees as part of a long-term affordable housing strategy and in future program design.

- **Health**—The Secretariat also identified that Syrian refugees had difficulty navigating the health-care system in Ontario. As well, it noted that those with low language skills lack an understanding of Ontario's health system. The Secretariat recommended that the Ministry of Health and Long-Term Care evaluate the effectiveness of existing pathways and explore potential alternatives to support refugee access to primary and specialist health care.

However, with the exception of the Secretariat's work surrounding Syrian refugees, we found that Ministry co-ordination with other Ontario ministries (as described in **Section 2.5**) that provide services to newcomers that can help them to settle and integrate has been limited. The Ministry is also not aware of the total spending related to newcomers across all ministries in Ontario, and advised that no one ministry has this information. As well, the Ministry does not have formal arrangements in place to receive information from other ministries on the number of newcomers they serve and their outcomes. The Ministry's senior management agreed that such information could assist in determining the degree to which newcomers are settling and integrating. The information could also assist the Ministry to identify barriers newcomers are facing and encourage them to take further advantage of available services.

We contacted several ministries and identified a number of services they provide that can contribute to the successful integration of newcomers. Several ministries provided us with information about the number of newcomers (individuals born outside of Canada) they serve and, where available, service outcomes. For example:

- The Ministry of Advanced Education and Skills Development identified that:
  - because clients self-identify their residency status, it does not know whether almost three-quarters of its Employment Ontario clients were born in or outside of Canada;
  - where it did have records it identified that in 2016/17, of the 23,500 clients who self-identified as newcomers to Canada who had completed their Employment Ontario services (such as literacy and basic skills, and employment services to assist in finding a job), more than 8,500, or 36%, found full-time employment at the time their services were completed. This was in line with the 38% rate achieved by their Canadian-born counterparts; and
  - between December 2015 and July 2017, more than 2,100 Syrian refugees accessed Employment Ontario services, and 36% of those who completed their services had obtained full-time employment.
- The Ministry of Education identified that for those who began high school in the 2011/12 school year, 89.3% of the almost 22,000 students born outside of Canada graduated high school. This was greater than the 86% average for Canadian-born students. In addition, 85.1% of students living in Canada for five or fewer years graduated high school. While the Ministry of Education told us that it does not track the cost of serving newcomers, it did on a one-time basis track the costs to serve Syrian refugee children in 2015/16 and found it incurred costs that totalled almost $16 million.
- The Ministry of the Status of Women funds a number of services for women including newcomers. For example, in 2016/17 it funded employment training for approximately 280 women who identified themselves as being abused and/or at-risk. Approximately one-quarter of these women identified themselves as immigrants, and most had been in

Canada for five years or more. However, it did not capture program outcome results for newcomer women. This Ministry also funded a campaign for family legal education for women (about women's rights under Ontario and Canadian law) that reached over 236,000 women in 2016/17 through workshops, webinars, website visits and social media. However, the Ministry does not break down the results into the number of newcomer women reached under this program.

- The Ministry of Health and Long-Term Care (Ministry of Health), through Ontario's 14 Local Health Integration Networks (LHINs), funds Ontario's 75 Community Health Centres (CHCs) to provide primary health care and community health programs and services to individuals, including those who face barriers accessing health-care services, such as refugees, new immigrants and people who do not have health insurance. As of March 31, 2017, these health centres were serving approximately 500,000 clients, about 10% of whom were newcomers who had been in Canada for 10 or fewer years. Meaningful outcome data for clients of CHCs (including newcomers) is not collected by either the LHINs or the Ministry of Health.
- The Ministry of the Attorney General funds Legal Aid Ontario to provide legal services to low-income individuals in Ontario, including newcomers. Legal Aid Ontario identified that in 2016/17 approximately 10%, or almost $23 million, of its total expenditures for certificate services (vouchers for legal services, such as to pay for a lawyer to represent a client in court) were for newcomers. In most of these instances, the expenditures related to asylum seekers to assist them with their legal proceedings for the determination of their refugee status. The Ministry could not provide outcome data on the number of asylum seekers granted refugee status.

Newcomers who are not able to successfully integrate economically may require financial support from the Ontario Works program administered by the Ministry of Community and Social Services. In 2016/17, it provided Ontario Works benefits to almost 120,000 cases where the primary applicant was born outside of Canada (including almost 40,000 cases involving primary applicants who had arrived in Canada since 2012). These cases involved more than 240,000 recipients, and total benefits paid amounted to almost $850 million. Over the last 10 years, those born outside of Canada have accounted for about one-third of all Ontario Works cases and received approximately 40% of all Ontario Works benefits paid. Over this same period, the average length of time on Ontario Works (based on the duration of the client's most recent term) for recipients born outside of Canada was 25 months, compared to 18 months for their Canadian-born counterparts.

In addition, a 2012 presentation by the Ministry of Community and Social Services on the profile of immigrants on social assistance in Ontario identified that these immigrants were more educated than their Canadian-born counterparts. While 29% of immigrants on social assistance had 14 years or more of education, just 17% of Canadian-born social assistance recipients had attained that level of education.

RECOMMENDATION 8

To help meet the needs of the newly arrived Syrian refugees, we recommend the Ministry of Citizenship and Immigration's Refugee Resettlement Secretariat work with the other ministries it has provided recommendations to on services that include employment, health and housing, in order to establish timelines for their implementation, and to periodically report on their progress.

MINISTRY RESPONSE

The Ministry agrees with this recommendation and is committed to working across the Ontario Government, with other levels of government, and across the sector to address the lessons learned during the resettlement of Syrian refugees.

The Ministry will work with ministries on the recommendations provided by the Syrian Refugee Resettlement Secretariat to establish timelines for their implementation and report on their progress. The Ministry will provide a report on progress to resettle Syrian refugees that highlights the unique whole-of-government approach that was taken to mobilize and co-ordinate multiple ministries, the federal government, municipalities, settlement agencies, school boards, community groups and individual Ontarians. The report will also highlight lessons learned from the resettlement efforts, and will identify next steps to address gaps.

RECOMMENDATION 9

To help meet its goal to successfully settle and integrate newcomers, we recommend that the Ministry of Citizenship and Immigration work with other ministries that provide services that can contribute to the successful integration of newcomers to:

- obtain and use information on the number and outcomes of newcomers served in these programs, to help the Ministry assess the degree to which newcomers are settling and integrating; and
- identify and explore opportunities to increase the use of services that demonstrate a significant contribution to the settlement and integration of newcomers.

MINISTRY RESPONSE

The Ministry agrees with this recommendation and recognizes the importance of inter-ministerial collaboration to improve services for newcomers. The Ministry will build on the work of the Refugee Resettlement Secretariat to leverage existing partnerships and explore opportunities to enhance information sharing with other ministries on the number of newcomers they serve and their outcomes, and to identify opportunities to increase the use of services that successfully contribute to newcomer settlement and integration.

RECOMMENDATION 10

We recommend that the Ministry of Citizenship and Immigration collect relevant information to further inform its discussions with the federal government, which is responsible for immigration in Canada, with respect to the federal government's allocation of funding to the Province.

MINISTRY RESPONSE

The Ministry agrees with this recommendation.

The Ministry will work with partner ministries, stakeholders and service providers to collect relevant information to further inform its discussions with the federal government on federal funding of settlement services in Ontario.

Appendix 1: Ministry Oversight of Service Providers

Source of data: Ministry of Citizenship and Immigration

Oversight Activity	Description
Risk assessment of service providers	The Ministry assesses risks at the service provider in the following categories: 1. Governance 2. Program delivery and services 3. Stakeholder satisfaction 4. Financial 5. Legal 6. Technology 7. Information 8. Human resources A five-point scale is used to rate risk in each category and an overall risk score is determined. The higher the score, the higher the risk. High-risk service providers are monitored more closely than medium or low-risk providers. For example, Ministry staff may visit or engage in more frequent communication with the service provider or undertake an audit of the services it funds.
Progress reports	Service providers submit progress reports to the Ministry that detail actual expenditures and service volumes, compared to contracted targets. The reports include explanations for significant variances between the actual and contracted services and/or financial targets.* The Ministry reviews the reports and follows up with service providers where concerns are identified.
Organizations submit audited financial statements	Organizations that provide Bridge Training and Refugee Resettlement Services are required to include in their financial statements service specific disclosures.

* School boards that only deliver Language Training report revised and final enrolment figures, as well as annual program expenditures. They are not expected to explain variances between actual and budgeted targets.

Appendix 2: Ministry Performance Indicators

Source of data: Ministry of Citizenship and Immigration

Key Performance Indicator	Baseline Value	Target Value	Year to Achieve Target
Ratio of immigrant to Canadian-born unemployment rates*	1.50 (based on 2015/16 results)	1.40	2020/21
Percentage of immigrants still living in Ontario five years after arrival	93.3% (based on 2013/14 results)	96%	2020/21
Percentage of internationally-trained individuals who completed an Ontario Bridge Training Program and obtained a licence in their regulated occupation	63.7% (based on 2014 survey results)	68%	2020/21
Percentage of learners progressing by at least one Canadian Language Benchmark level within a school year	54% (based on 2014/15 results)	60%	2018/19

* The Ministry has set a target for the rate of unemployment among immigrants landing in the last 10 years to be no more than 40% higher than that of their Canadian-born counterparts by 2020/21.

Appendix 3: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Settlement and integration services and programs are accessible, timely, and appropriate to the needs of newcomers and delivered in compliance with legislative, policy and program requirements.
2.	Performance measures and targets are established, monitored and compared against actual results to ensure that the intended outcomes are achieved and that corrective actions are taken on a timely basis when issues are identified.
3.	Information systems provide complete, accurate and timely information for program performance measurement and reporting.
4.	Funding allocations are applied to service providers based on established needs, commensurate with the value of services to be provided, and evaluated on a regular basis.
5.	Effective processes are in place to co-ordinate efforts and the sharing of best practices between the Ministry and the federal government, as well as other ministries that provide services that can help settle and integrate newcomers.

Appendix 4: Former Syrian Refugee Resettlement Secretariat Performance Measurement and Outcome Indicators

Source of data: Ministry of Citizenship and Immigration

Domain	Targeted Outcomes	Performance Indicators
Settlement and Integration	Refugees live in suitable housing and feel socially connected to their communities and Canada.	• Strong sense of belonging to local community • Housing (adequacy, affordability and suitability)
Health	Refugees have high levels of physical and mental health and have access to health-care services at rates similar to other Canadians.	• Good physical health • Good mental health • Rate of access to health-care services
Education	Refugees have access to education and training at an equitable rate that supports their personal potential.	• Language (English/French) at conversational level • Progressing through post-secondary and apprenticeship
Economics	Refugees enjoy levels of income on par with other Canadians over time and do not rely on social assistance for long-term economic security.	• Employment or self-employment (that matches education) • Income (other than social assistance) • Receipt of social assistance

Ministry of Housing

Social and Affordable Housing

1.0 Summary

According to Statistics Canada, in 2016 there were 1.9 million low-income individuals in Ontario. Low-income individuals are defined as living in a household that takes home less than half of the median after-tax income of households of its size. When low-income Ontarians have to pay market-rate rents for their housing, they are often left with insufficient funds for essentials such as food. Some low-income households end up living in housing inadequate for their family's needs or in shelters.

Housing is considered affordable when shelter costs are no more than 30% of a household's total income before taxes. In response to this reality, a variety of government programs have been developed over many years aimed at helping low-income Ontarians attain housing within their means. These government programs form a complex and often-confusing patchwork approach to housing needs. Some programs fall within what historically has been referred to as "social housing"; some are termed "affordable housing"; and some fall under neither category. They are as follows:

- ***"Social housing":*** Households receiving social housing benefits pay rent that is geared to income: they pay rent equal to 30% of their gross income. Between the 1940s and 1995, the construction of these housing units was funded by the federal and provincial governments. In 2001, the Province transferred responsibility for the oversight and funding of social housing to the municipal level, setting up municipal "service manager" organizations. The *Housing Services Act* (Act) specifies how many households each municipal service manager must provide social housing for; these total almost 187,000 province-wide. Social housing units are operated by housing providers, which are not-for-profit organizations, co-ops, private landlords, or municipal corporations.
- ***"Affordable housing":*** Since 2002, the federal and provincial governments have jointly funded initiatives aimed at increasing housing and housing supports intended for low-income households. Four programs are currently offered through federal-provincial funding:
  - grants for the construction of new rental units;
  - rent subsidies for low-income households;
  - renovation grants; and
  - down-payment assistance for home purchases by low-income households.
- ***"Other pre-1996 housing":*** During the years that the social housing stock was built, the same housing providers also built about an additional 78,000 units that are not covered

by the almost 187,000 social housing subsidies in the *Housing Services Act*. Some of these units offer rents geared to income; others offer rents lower than market rates, but not geared to income.

Although there continues to be debate in this area, legal experts generally agree that, constitutionally, neither the federal government nor the provinces are legally required to provide affordable housing, nor are they prevented from doing so. This has enabled the Province to take action as it chooses, such as passing legislation regarding eligibility for social housing, while not assuming overall responsibility for developing and implementing a comprehensive approach to what many deem to be a growing housing crisis in Ontario. Although it is a common perception that municipalities are now responsible for housing, they are in fact only responsible for providing social housing to 186,717 households as defined in the Act. Applicants on their social housing wait lists, and other households needing below-market rentals are not legally the municipalities' responsibility to address.

The Province has assigned some of this responsibility to municipal service managers by requiring them to develop 10-year Housing and Homelessness Plans. However, the plans, for the most part, lack clear objectives and quantifiable targets and outcomes needed to successfully address housing needs. This is likely due to the fact that municipal service managers have no legal obligation to invest in housing programs (apart from the almost 187,000 social housing subsidies they are required to provide). In fact, about half of the municipal service managers that responded to our survey did not invest municipal dollars in housing, beyond social housing.

Consequently, our audit found that there is no provincial strategy to address the growing social housing wait lists (185,000 households waiting as of 2016), the needs of the growing number of low-income Ontarians (1.9 million in 2016), and the risk of losing almost one-third of the existing affordable rental units in the province (about 83,000 of 285,000 units). Given the broader social and economic implications of so many Ontarians living in inadequate housing, it would be reasonable for the government to have a comprehensive strategy.

Some specific observations in this audit include:

- **Ontario has one of the largest social housing wait lists in the country—wait times are lengthy and growing even longer.** There are more people on wait lists for social housing than are currently receiving social housing benefits. As of December 2016, Ontario's wait list of 185,000 households, representing about 481,000 people, is 3.4% of its total population, the highest in the country. The number of households on Ontario's wait lists has increased by 36% in the last 13 years for which this information was available. Yet the Ministry of Housing (Ministry) has not investigated why so many people are waiting for social housing, or why the numbers are increasing (although at a declining rate), and it has not developed a strategy to address the growing wait lists. Applicants on the wait lists can only receive a social housing subsidy when vacancies are created. However, few vacancies are created—only about 5% of people on the wait lists are housed in a given year. Wait times at the nine municipal service managers we visited ranged from 1.8 years to over nine years for a social housing subsidy. In addition, the number of vacancies filled across the nine municipal service managers we visited fell by 18% from 2012 to 2016.
- **Ontario does not do enough to integrate its housing and employment supports to encourage and help social housing tenants move to a market-rate unit.** Other provinces, such as British Columbia and Saskatchewan, have better integration of housing and employment supports; tenants transition off social housing in about five to seven years, on average. In Ontario, however, housing and employment supports are not integrated.

As well, there is little incentive for social housing recipients to improve their incomes. We calculated that an individual working full-time at a minimum-wage job (earning about $21,750) and paying market rent would have roughly the same disposable income after rent as someone living in social housing but not working full-time.

- **Applicants on social housing wait lists face affordability challenges.** Although the Ministry does not collect information on the difficulties faced by those on wait lists, a few municipal service managers have conducted surveys of applicants on their wait lists to try to gain a deeper understanding of their situations. For instance, about one-fourth of households surveyed waiting on one municipal service manager wait list paid about 40% of their income on rent (in excess of the 30% generally accepted as the standard for affordability). About 52% of households surveyed were rooming with family, friends or in other temporary housing arrangements with no security of tenure. About 22% of households surveyed on wait lists could not make rent and utility payments and owed arrears to their landlords or utility companies, and about 5% of the applicants surveyed were currently under eviction proceedings.
- **Housing is provided on a first-come first-served basis, not on assessed need.** In light of the fact that there so many people are on wait list, one might expect the Ministry to take particular interest in ensuring that those households with the greatest need receive housing when it becomes available. However, the Act does not require prioritization of people on wait lists according to their needs (apart from victims of abuse who receive priority). We noted that British Columbia, for example, assesses factors such as income level, current rent paid, and adequacy of current housing conditions when making housing decisions, whereas in Ontario, most applicants receive a subsidy based on when they joined the wait list. Of particular note:
  - Applicants on the wait lists have been found to own significant assets. At three municipal service managers' locations, we noted a total of about 900 eligible applicants on the wait lists owned at least one home.
  - Applicants already receiving rent subsidies under an affordable housing program can have a higher spot on the wait list than other applicants whose needs can be greater because they do not receive any financial assistance for rent.
  - Applicants who are not residing in Ontario also maintain a spot on the wait list, ahead of other Ontarians living in the province.
  - Some applicants, having waited years for a unit, have in fact refused adequate units offered in their preferred buildings. Such applicants continue to be ahead of others who have not received any unit yet. Refusal reasons cited at two municipal service managers that track this information include not wanting to move at that time, and not liking the building aesthetically.
- **Affordability challenges likely to increase when housing contracts expire over the next 15 years.** Contracts that obligate housing providers to offer affordable rents began to expire in 2007; about 50% will have expired by the end of 2020, and the last by 2033.
  - If housing providers do not renew their contracts with municipal service managers, up to 83,000 current below-market rentals could convert to market-rate rents. We gathered information from 16 responding municipal service managers through our survey and noted that 5,800 units have been converted to market-rate rentals (the Ministry does not have complete information on the number of units that have converted to market rents).

- At the discretion of the housing provider, rent geared-to-income benefits for some tenants (benefits not covered by the Act and separate from the almost 187,000 legislated social housing subsidies) can also be removed when contracts expire, leading to tenants paying full rent for their units. These subsidies can be quite large if households, such as senior households, have low incomes. We obtained information from 12 municipal service managers that responded to our survey that track this information, and found that a total of 124 out of 256 subsidies had been eliminated by housing providers in their areas. The Ministry does not track how many tenants pay rent geared to income not covered under the Act, nor does it gather details on whose subsidies have been removed.

- **Few affordable units built since 1996.** Despite an increase in demand for units with below-market rents, only 20,000 such units have been built in the last two decades. Governments have not made the building of affordable rental units a priority. Since 1996, 1.3 million new condominium units and houses have been built in the province, but only 61,000 market-rate rental units and the 20,000 affordable rentals have been added.

- **Not-for-profit development of rentals and houses is not being encouraged.** Partnerships with not-for-profit organizations are important. Between the 1960s and 1996, they built about 93% of Ontario's existing supply of below-market rentals. However, current housing programs do not promote development by not-for-profits. Funding stipulations and strict requirements make it challenging for municipal service managers to build partnerships with not-for-profit organizations:
  - We found that at eight of the nine municipal service managers we visited, only one-third of developers of affordable rentals were not-for-profits versus two-thirds private. Funding stipulations make it difficult for not-for-profits to qualify for grants to build affordable rentals. Not-for-profit development is beneficial because, in some areas of the province, private developers have not shown an interest in building affordable units; thus, development by not-for-profit organizations is perhaps the only way to build new units in these areas. Further, because it is not the objective of not-for-profits to earn a profit, they can provide affordability benefits in perpetuity (private developers are only required to provide affordability benefits for 20 years). For instance, a 2016 study completed by the Ministry found that, once their contract periods had expired, nine out of 10 private developers converted their affordable buildings to condominiums or increased rents to market rates.
  - In addition, we noted that almost all municipal service managers we visited that could partner with not-for-profits to build affordable houses were not doing so. These municipal service managers either decided to stop delivering the program or have started phasing it out because of strict funding stipulations (prescribed jointly by the Ministry and the federal government) that make it difficult to partner with not-for-profits without risking losing the funding and cancelling projects mid-way. Funding stipulations state that funding is provided only after a buyer signs a purchase agreement. However, the signing of this agreement does not correlate with when construction costs are actually incurred; therefore, not-for-profits can incur significant construction costs prior to this. This can sometimes lead to financial difficulties. For instance, in one area, half of the housing units a not-for-profit planned to build could not be built, and had to be cancelled, because the not-for-profit did not

receive the needed funding when it experienced financial difficulties well in advance of having a signed purchase agreement with the buyer.

- **Municipal Service managers are currently not providing social housing to all households they are required to by law.** Since 2004 (the first year this information is available), municipal service managers have been providing social housing, on average to 168,600 households instead of the 186,717 mandated by the *Housing Services Act*. The Ministry has taken limited action to assess why municipal service managers have been providing available social housing to, on average, around 18,120 fewer households annually than required, or to enforce compliance with the legislated standard. Our audit found that this is occurring for several reasons:
  - **Tenants who become ineligible for social housing can continue to reside in their units.** Ontario's *Residential Tenancies Act* prevents former social housing recipients, who are no longer eligible for social housing, from being requested to vacate. Therefore, fewer vacancies are available for current applicants. Thirty of the 38 municipal service managers that responded to our survey indicated that this prevents the municipal service manager from providing the legislated number of social housing subsidies.
  - **Thousands of units unused because of poor condition of repair.** Vacant units can only be offered to prospective tenants if they meet minimum health and safety standards. As of December 2016, there were about 6,300 vacant social housing units that are not being provided to tenants. This situation is only likely to worsen as the social housing stock, built several decades ago, ages.
  - **Housing providers have been found to fill vacancies with non-social-housing tenants.** Municipal service managers that account for about two-thirds of the 187,000 social housing subsidies that must be provided according to the Act indicated to us that they could not provide the minimum number of social housing subsidies because housing providers were filling vacancies with non-social-housing tenants, despite their contractual obligations. The number of vacancies filled with non-social-housing tenants is unknown because the Ministry does not require municipal service managers to gather this information.

With regard to the two affordable housing programs, rent subsidies and renovation grants, our audit found that municipal service managers were generally using the funds as intended, and were providing the necessary supports to low-income individuals.

In addition, on a positive note, our audit found that, in September 2017, the Ministry implemented a new tool—the portable housing subsidy—that would help municipal service managers meet the legislated standard of providing social housing to the 186,717 households. Currently, about 10 in 11 households that municipal service managers are required to assist under the Act are receiving social housing. Prior to this change, social housing subsidies could only be provided at units dedicated for social housing; the portable nature of the new tool allows municipal service managers to meet the standard even if dedicated social housing units are unavailable for various reasons discussed earlier. (Dedicated units are owned by housing providers that are legislated to provide units to a social housing tenant or are secured through contracts with other housing providers.) We encourage the Ministry to work with municipal service managers in adopting the new tool, which is currently not mandatory, so the full standard of assisting 186,717 households can be met.

This report contains 15 recommendations, with 24 action items, to address our audit findings.

Overall Conclusion

Our audit concluded that the Ministry of Housing did not have effective systems and procedures to oversee and co-ordinate the delivery of social and affordable housing programs and services. It did not ensure that social housing was delivered in compliance with legislated requirements with respect to the minimum number of about 187,000 households that are required to be provided social housing benefits. It did not have a strategy that seeks alignment and encourages efforts of all government levels toward meeting its goal of ensuring that everyone in Ontario has an affordable and suitable home. The Ministry also did not measure and publicly report on the effectiveness of housing programs in Ontario.

OVERALL MINISTRY RESPONSE

The Ministry of Housing (Ministry) acknowledges the complexity of the affordable and social housing system in Ontario. The Ministry recognizes the need for improvements to move toward the government's vision that every person has an affordable, suitable, and adequate home to provide the foundation to secure employment, raise a family and build strong communities.

The Long-Term Affordable Housing Strategy Update, released in March 2016, outlined a number of commitments to continue progress toward this vision, and as outlined in this report, some progress has been made in recent months. However, more work remains to be done.

In particular, the government has committed to transforming and modernizing social housing in Ontario to be more efficient, people-centred and sustainable. Over the past eighteen months, the Ministry has worked with a group of sector stakeholders to begin the design of a modern framework. In early November, the Minister of Housing launched broader sector consultations on a draft framework for social housing.

In addition, the Ministry is currently involved in negotiations, along with other provinces and territories, with the federal government on a National Housing Strategy. The federal government has committed to further investment in social and affordable housing, including reinvestment of the federal government's declining funding for social housing. The Ministry looks forward to concluding these negotiations and leveraging federal investments to support a more effective, sustainable housing system. Through these initiatives, and other activities, the Ministry looks forward to working with the federal government, municipalities, and other sector partners to address the findings of this report.

2.0 Background

2.1 Overview of Housing Programs

According to Statistics Canada, in 2016 there were 1.9 million low-income individuals in Ontario. A low-income household is defined as one that takes home less than half of the median income, after taxes, of households of its size.

When low-income Ontarians have to pay market-rate rents for their housing, they are often left with insufficient funds for essentials such as food. Some low-income households end up living in housing inadequate for their family's needs or in shelters.

Experts, including academics, have concluded that having adequate and affordable housing reduces the stress associated with unaffordable and short-term housing arrangements. It also frees up income to purchase other goods and services essential for finding and maintaining employment, taking care of dependents, and generally maintaining a decent standard of living. Having adequate and affordable housing can also reduce demand for public services including homelessness shelters, emergency and non-emergency medical

services and justice sector services. For instance, the Ministry reported that the average cost of providing social housing to one household is about $613 per month. In comparison, one shelter bed costs $2,100 per month (more than three times more expensive), one long-term care bed costs an average of $3,960 per month (more than six times more expensive), one correctional facility bed costs an average of $4,300 per month (seven times more expensive), and one hospital bed costs an average of $13,500 per month (22 times more expensive).

Widely accepted standards set by the Canada Mortgage and Housing Corporation (CMHC) define affordability, suitability and adequacy in housing as being met when housing costs are less than 30% of before-tax income; there are enough bedrooms in a unit to appropriately accommodate each family member; and the housing does not require major repairs. Thus, in order for low-income households to meet the affordability standard, they need access to rentals that are subsidized or have below-market rents. In response to this reality, a variety of government programs have been developed over many years aimed at helping low-income Ontarians attain housing within their means. Some programs fall within what historically has been referred to as "social housing"; some are termed "affordable housing"; and some fall under neither category.

In Ontario, there are currently about 285,000 rentals with below-market rents. The need for affordable housing in Ontario is greater than these 285,000 units, as evidenced by the large number of low-income households. The Province has joined with the federal government in funding programs to address housing needs. We discuss these programs in the following sections. An overview of all housing programs is presented in **Figure 1**.

2.1.1 "Social Housing" and Other Similar Units Have Been Offered since the 1940s

Of the 285,000 units with below-market rents, about 265,000 units were built before 1996 and are comprised of social housing and other pre-1996 housing. Total value of these units is approximately $30 billion. The remaining 20,000 units, termed "post-2002" housing, were built through the "affordable housing" initiatives (discussed in **Section 2.1.2**).

There Are Approximately 187,000 Units for Social Housing in Ontario

Households receiving social housing benefits pay rent that is geared to income: they pay rent equal to 30% of their gross income. For example, if a person living in a social housing unit earns $2,000 per month, his or her rent would be $600 a month. The *Housing Services Act, 2011* (Act), legislates that a total of 186,717 households are required to receive social housing benefits. This was the number of households to which the Province was providing social housing when it downloaded responsibility for social housing to the municipalities by the end of 2001.

Historically, social housing benefits could only be provided within a dedicated social housing unit. However, as of September 2017, the Act was amended to allow municipal service managers to provide social housing benefits as portable subsidies that can be applied toward market-rate rents in non-social-housing units. Our audit did not include a review of these portable subsidies as municipal service managers are currently in the initial stages of implementing the subsidy.

Up until the portable subsidies were introduced in September 2017, social housing was mostly considered to be housing that was built between the 1940s and 1995. These units were built through various federal, federal/provincial and provincial funding initiatives. Housing providers entered into contracts that required them to provide a total of nearly 187,000 units to social housing tenants in Ontario.

Prior to 2001, social housing was the responsibility of the federal and provincial governments; however, by the end of 2001, the oversight and funding responsibilities for social housing units had been transferred to municipal governments. When

Figure 1: Overview of Housing Programs in Ontario

Prepared by the Office of the Auditor General of Ontario

Housing Program	Main Benefits Received by Household	Number of Households that Can Receive These Benefits	Program Administration and Oversight	Source of Program Funding
Housing programs offered since the 1940s These were the only housing programs offered in Ontario prior to 2002. "Social housing" and "other pre-1996" housing comprise a total of **265,000** units. These programs are also further discussed in **Section 2.1.1**.				
Social housing	Households in social housing pay rent that is geared to income. They pay 30% of their gross income towards rent, or a minimum of $85 per month.[1]	Under the *Housing Services Act*, municipal service managers are required to provide social housing subsidies to a minimum total of **186,717** households.	**Municipal service managers** oversee housing providers that operate the dedicated social-housing units to ensure geared-to-income rents are calculated correctly, and that housing providers are following best practices when managing their properties.	A total of $1.35 billion was spent in 2016 by the **municipal** (70%) and **federal** (29%) governments.
Other pre-1996 housing	Households living in these rentals either pay rent geared to income, or pay rents that are below market rates, but not geared to income.	There are a total of about **78,000** units that offer these housing benefits to tenants.	**Service managers** oversee housing providers that operate the 59,000 units to ensure units are provided to eligible households and that providers are charging correct rents.	Operating costs for about 17,000 units (22%) are self-funded by the housing providers themselves.[2] Operating costs for about 42,000 units (54%) are funded by a combination of **municipal** and **federal** funding (funding amounts are unknown).
			The **federal** government oversees housing providers that manage the approximately 19,000 remaining units.	Operating costs for the approximately 19,000 remaining units (24%) are funded by the **federal** government (funding amounts are unknown).
Housing programs introduced in 2002 known as "Affordable Housing"[3] Funded jointly through the provincial and federal governments, these programs (also discussed in **Section 2.1.2**) began to be offered in 2002, and have been continuously funded since then through the various funds described in **Figure 4**.				
Post-2002 rental units built through the Construction Grants program	Households living in these rentals pay rent that is at least 20% lower than market rates in their areas. Units include one- to four-bedroom apartments or townhouses.	There are a total of about **20,000** units built since 2002 that offer these housing benefits to tenants.	**Service managers** oversee landlords who operate these rentals to ensure units are provided to low-income households.	Up-front construction grants, currently of up to $150,000 per unit, were provided to developers when these units were first being constructed through joint **federal/provincial** funding.

Housing Program	Main Benefits Received by Household	Number of Households that Can Receive These Benefits	Program Administration and Oversight	Source of Program Funding
Rent subsidies	Rent subsidies are provided to low-income households. An average of about $260 per month was provided to households (based on information we received from 36 survey respondents). Service managers can choose how much money to provide each household, and for how many years.	Total households helped under this program is **unknown**.	**Service managers** determine eligibility and are responsible for disbursing the monthly rent subsidies to households.	Subsidies are provided through joint **federal/provincial** funding.
Renovation grants	Low-income homeowners can receive grants to improve safety or accessibility in their homes, such as installing chair and bath lifts for seniors or persons with disabilities	Total households helped under this program is **unknown**.	**Service managers** determine eligibility and are responsible for disbursing the renovation grants to households.	Subsidies are provided through joint **federal/provincial** funding.
Down-payment assistance	Forgivable down-payment loans are provided to low-income renters to purchase a home. These loans are to be repaid if the purchased unit is subsequently sold. If the property is held for more than 20 years, the loan is forgiven. The average value of loans provided in 2016 was about $17,000.	A total of about **6,700** households received down-payment assistance since 2002.	**Service managers** determine eligibility and are responsible for disbursing the loan to eligible households.	Down-payment assistance is provided through joint **federal/provincial** funding. Some municipalities may choose to provide additional grants to top up the **federal/provincial** funding.
20-year rent supplements provided since 2003				
Strong Communities Rent Supplements Program	Households under this program receive a rent supplement of an average of $640 per month.	These rent supplements are provided to **6,500** households in Ontario.	**Service managers** determine eligibility and are responsible for disbursing the monthly supplements to households.	The **provincial** government provides about $50 million annually for these rent supplements.

1. Historically, social-housing benefits could only be provided at the nearly 187,000 dedicated social-housing units. However, as of September 2017, the *Housing Services Act* was amended to allow service managers to choose to provide social-housing benefits as portable subsidies that can be applied to the rent of any rental unit, even those with market-rate rents.
2. Housing providers self-fund the operating costs for these units because, at the time of construction, they received up-front construction grants, which they are not required to repay. In return, they are required to provide below market-rate rentals to tenants for an agreed-upon number of years.
3. Across the province, service managers can choose whether they would like to deliver this program, and, if delivered, to how many households.

this took place, the Province designated "municipal service managers" to administer social housing at the municipal level; areas administered by municipal service managers are known as "service areas." In southern Ontario, a municipal service manager can be an upper- or single-tier municipality, or a group of upper- and single-tier municipalities. In Northern Ontario, however, because municipalities have smaller populations and are spread over large geographic areas, the government grouped municipalities into 10 District Social Services Administration Boards that act as municipal service managers. **Figure 2** provides a brief history of the transfer of social housing to the municipal level.

The Act is the overarching legislation that prescribes certain program requirements for social housing. Municipal service managers are expected to follow these requirements while delivering and administering the social housing program. These requirements include:

1. **How many households should receive social housing benefits:** The Act prescribes the minimum number of households that should receive social housing benefits in each service area (with a total of 186,717 provincially.) See **Appendix 1** for each municipal service manager's quota.
2. **How to determine eligibility:** An applicant who is a Canadian permanent resident 16 years of age or older is eligible if his or her income is less than the prescribed maximum annual household income. **Figure 3** presents income limits set out in the Act for determining eligibility for different social housing units based on bedroom-size. Municipal service managers are allowed to change these, and often do so, to respond to high or increasing rents. The Act includes no other eligibility criteria than income level. However, the Act does not preclude municipal service managers from adding asset limits as further eligibility criteria, which some have done. When a unit becomes available, an eligible household is matched to a unit type, such as a bachelor or one-bedroom unit, based on the number of people in the household. For example, a household with two parents and one child can be eligible for a two-bedroom unit if their household income is below $42,300. Once eligible, applicants are placed on the social housing wait list for the service area they have applied in. The Act specifies, for the most part, that applicants on the wait list be housed on a first-come, first-served basis.

Figure 2: Timeline of the Devolution of Almost 187,000 Social Housing Subsidies

Prepared by the Office of the Auditor General of Ontario based on information obtained from the Ministry of Housing

Year	Description of Events
1940s–1995	**Construction of social housing units:** The federal and provincial governments funded the construction of about 187,000 units that are required to be used for social housing. Some were built through joint federal-provincial funding, and others through only provincial funding.
1996–2000	**Province negotiates with municipalities to transfer social housing:** Prior to 2001, the Province and the federal government were responsible for providing social housing in Ontario. In 1996, the Province made a decision to download to the municipalities (service managers) its responsibility for providing social housing for the approximately 187,000 households now covered by the *Housing Services Act*. Between 1996 and 2000, the Province negotiated with the municipalities to devolve this responsibility, and in exchange, take over some of the costs related to education.
2001	**Transfer of social housing to municipalities complete:** Municipal service managers would now be responsible for providing approximately 187,000 social housing subsidies. The federal government would continue to provide, until 2033, some social housing funding to the municipalities; however, municipalities would be responsible for covering a majority of the costs relating to the approximate 187,000 subsidies. The Province would no longer fund social housing.

Figure 3: Income Limits for Determining Eligibility for Social Housing

Prepared by the Office of the Auditor General of Ontario based on information obtained from the *Housing Services Act, 2011*

Unit Type	Maximum Household Income Limit*($)
Bachelor	29,200
1 bedroom	35,400
2 bedroom	42,300
3 bedroom	49,100
4 bedroom +	58,900

* Income limits vary across different service areas of the province. Amounts presented in this figure are averaged across the province.

3. **How to calculate tenant income in order to determine rent payable:** The Act prescribes that tenants' rents be geared to their before-tax incomes. It also prescribes which types of income should be included and excluded when determining rent payable. For example, the Act requires that employment income be included but certain types of pension income excluded when calculating a tenant's income. The tenant then pays rent that is equal to 30% of his or her before-tax income.

As of December 2016, 185,000 applicants in Ontario were on a wait list to receive a social housing unit, according to the Ministry. At the nine municipal service managers we visited, we found wait times that ranged from an average of 1.8 to over nine years.

There Are Approximately 78,000 Additional Units for Low-Income Households

In addition to the nearly 187,000 social housing units, there are about another 78,000 units that were also built by the same housing providers that built the social housing units—these are referred to as "other pre-1996 housing," and not social housing.

These units were also built through various federal, federal/provincial and provincial funding initiatives. At the time these units were built, housing providers entered into contracts with the provincial or federal government that gave them the initial funding to provide various forms of subsidized housing—some are contractually required to offer rents geared to income (similar to social housing); others are contractually required to offer rents lower than market rates, but not geared to income.

Contracts Are Expiring for All Housing Providers

As mentioned, when social housing and other pre-1996 housing were built, housing providers entered into contracts to provide the subsidized housing. Contracts with some of the housing providers were subsequently cancelled, and the responsibilities of those housing providers' incorporated into legislation (currently under the *Housing Services Act, 2011*).

After the contracts expire, for those that continue to have existing contracts, housing providers are no longer required to provide the different forms of subsidized housing they currently provide. These contracts began to expire in 2007; the last contract will expire by 2033.

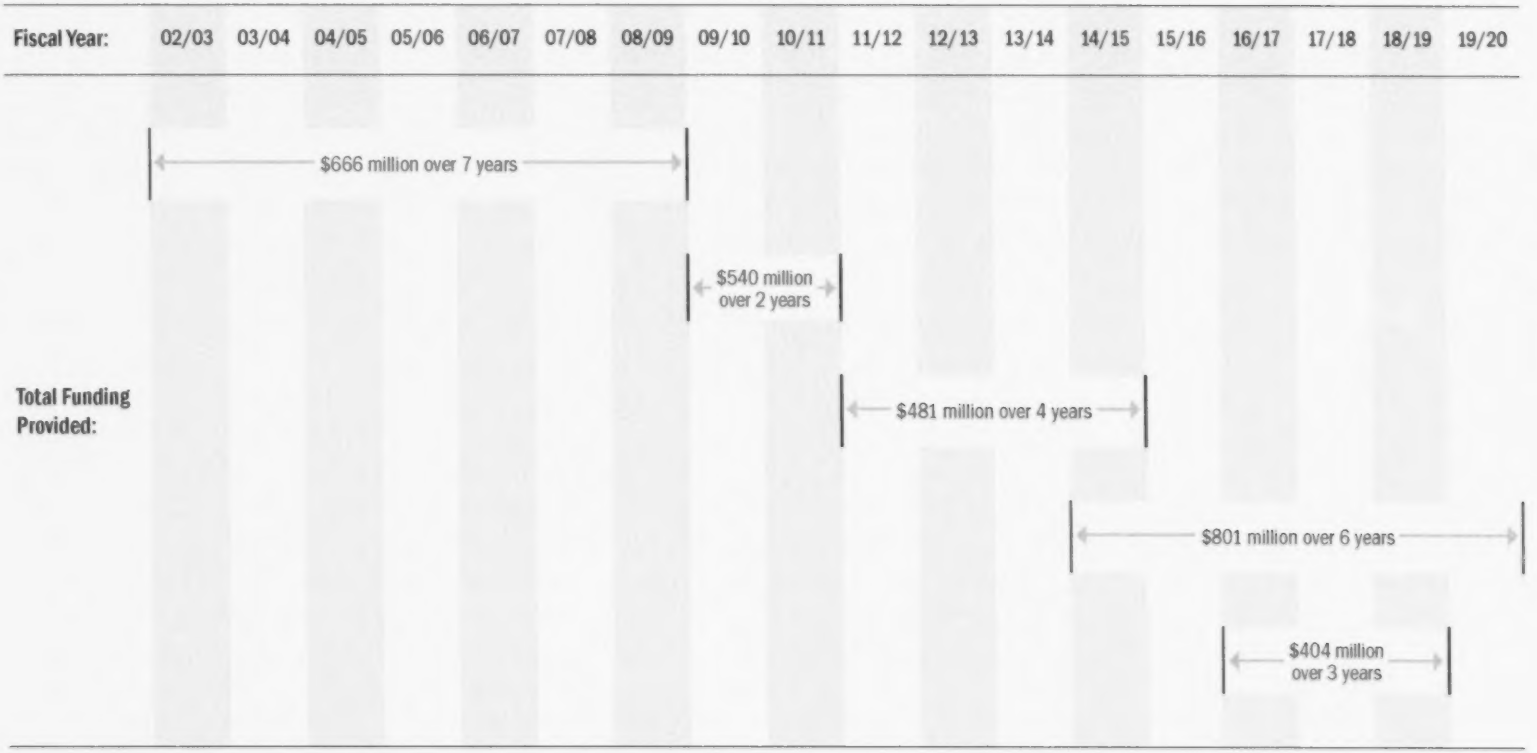
2.1.2 Housing Supports Offered since 2002 Known as "Affordable Housing"

In 2002, the federal and provincial governments began providing funds to municipal service managers to expand the housing stock and provide financial supports to low-income households. These initiatives are often referred to as "affordable housing" programs (distinct from "social housing").

As **Figure 4** shows, the funding has been delivered through five funds over varying periods of time. Currently, funding is provided under two funds as shown in **Figure 4**: $801 million provided over six years under the Investment in Affordable Housing-Extension, and $404 million over three years provided under the Social Infrastructure Fund.

Figure 4: History of Funding Provided Jointly by the Federal and Provincial Governments for Affordable Housing Programs

Source of data: Ministry of Housing



Four programs are currently offered through these federal/provincial funds:

- construction grants for affordable rental units (which we refer to as "post-2002 housing");
- rent subsidies;
- renovation grants; and
- down-payment assistance.

Details on each program, including an overview of housing benefits provided under each program, are presented in **Figure 1**.

Municipal Service Managers Choose Which Programs to Offer

It is up to each service manager to choose which of the four programs it wants to offer in its area, and can choose to continue, or discontinue, providing funding for any of the four programs. **Figure 5** shows how many municipal service managers offer each program.

Municipal Service Managers Can Set Income Thresholds below Prescribed Limits

Households that can apply to these programs are required to have incomes below a certain threshold. These income thresholds are established locally by each municipal service manager; consequently, they vary across the province. They can also vary from program to program within the same service area. However, they are required to be below maximum thresholds prescribed jointly by the Ministry and the federal government (prescribed thresholds are set at 60% of the average household income in a given area). For example, **Figure 6** shows details on income limits established in two different areas of the province.

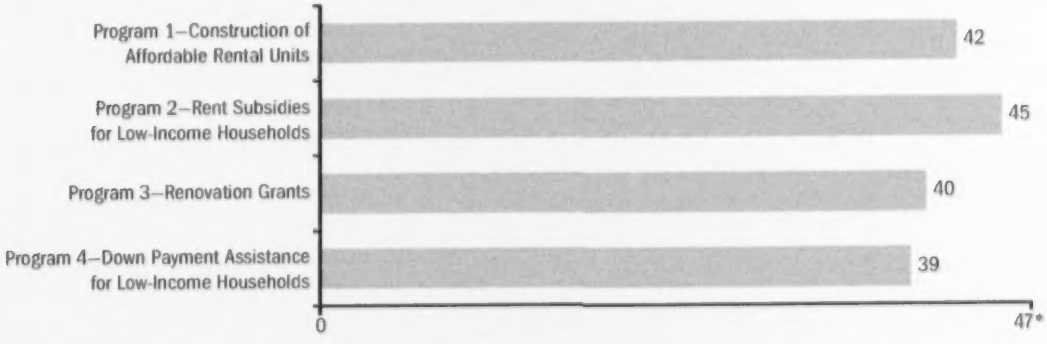
2.1.3 Other Housing Programs

In addition to social housing, other pre-1996 housing, and affordable housing programs, about 6,500 Ontarians are currently receiving monthly rent supplements under the Strong Communities Rent Supplement Program. These supplements began being offered in 2003, and will continue to be offered until 2023. (Additional details on this program are also found in **Figure 1**.)

In addition to these programs discussed here, municipal service managers can also deliver housing programs using their own municipal funds. About half of the municipal service managers we surveyed indicated that they provided housing programs in their areas using municipal dollars, while the other half indicated they have not. Municipally funded housing programs offered by municipal service managers are similar to the provincially and federally funded affordable housing programs such as rent subsidies and down-payment assistance.

Figure 5: Number of Municipal Service Managers That Offer the Various Affordable Housing Programs

Source of data: Ministry of Housing



* There is a total of 47 service managers in the province.

Figure 6: Income Limits* for Eligibility in Two Service Areas ($)

Source of data: Information obtained from two service managers

Program Type	Income Limits in Municipality A	Income Limits in Municipality B
Program 1—Construction of Affordable Rental Units Income limits for tenants to qualify to move into affordable rentals	59,800	36,200
Program 2—Rent Subsidies for Low-Income Households Income limits for renters to qualify for rent subsidies	53,700	42,700
Program 3—Renovation Grants Income limits for households to qualify for receiving renovation grants	63,700	60,000
Program 4—Down Payment Assistance for Low-Income Households: Income limits for households to qualify for down-payment assistance	90,500	55,000

* For Progams 1, 2 and 3, income limits vary depending on the size of the unit, or the size of the household; therefore, average income limits are presented in this figure.

2.2 Funding for Housing Programs

Over the past five years, about $1.5 billion, on average, has been spent each year on housing programs across all three levels of government. **Figure 7** provides an overview of funding over the past five years. Social housing is primarily funded by federal and municipal (service manager) dollars, whereas the four "affordable housing" programs are primarily funded equally by the Province and the federal government.

Social Housing Is Mainly Funded by the Federal and Municipal Governments

About $1.35 billion has been spent annually over the past five years to support social housing in Ontario. This money is provided by the federal (29%) and municipal (service manager) governments (70%); the Province only contributes about 1% toward social housing costs, most of which relates to Indigenous social housing in Northern Ontario.

Funding for the Four Affordable Housing Programs Is Mainly Provided by the Federal and Provincial Governments

About $125 million has been spent annually over the past five years by the federal and provincial governments to deliver the four "affordable housing" programs discussed earlier. The two governments generally contribute equally to these programs. (**Figure 8** shows the calculation used to determine each municipal service manager's allocation.)

In addition, municipal service managers can also opt to add their own money to these initiatives. However, they are not required to do so—about half of the municipal service managers have opted to add their own money, whereas the other half have not. On average, municipal service managers have invested about an estimated $38 million annually over the past four years for which this data was available. (This is based on amounts municipal service managers have reported to the Ministry; however, not all municipal service managers have reported this information as it is not a requirement.) **Figure 9** shows the approximate amounts disbursed under each of the four programs by municipal service managers.

Figure 7: Total Funding for Social and Affordable Housing, 2011/12–2015/16 ($ million)
Source of data: Ministry of Housing

2.3 Roles and Responsibilities

All three levels of government are involved in some capacity in the delivery and oversight of housing programs. We discuss in the following sections the roles and responsibilities of each government, as well as the role of housing providers. **Figure 10** provides additional details on the roles and responsibilities of the parties involved in the delivery of housing programs in Ontario.

Housing Providers

Housing providers are landlords that manage and oversee three types of rental units—social housing, other pre-1996 housing, and post-2002 housing. These providers have legal ownership of their units and can be one of:

- a municipally owned housing provider, such as Peel Housing Corporation, or Toronto Community Housing Corporation;
- a not-for-profit or co-operative housing corporation, such as the Federation of Chinese Canadian Professionals Non-Profit Housing Corporation or Edenwood Seniors Village; or
- a private landlord.

There are about 1,200 not-for-profit and co-operative housing providers, and about 400 private landlords. The housing providers report to one of the 47 municipal service managers, whose responsibility is to deliver and administer housing programs in their areas.

Municipal Service Managers (Municipal Level)

As discussed earlier, 47 municipal service managers were created by the Province in 1998 when responsibility for social housing began to be transferred from the Province to the municipalities (the transfer was complete by 2001/02). Since 2001/02, municipal service managers' roles have evolved; today they are responsible for delivering and administering all housing programs, with the exception of Indigenous housing programs.

Ministry of Housing (Provincial Level)

The Ministry of Housing's (Ministry) goal, as stated in its Long-Term Affordable Housing Strategy, is to ensure that everyone in Ontario has an affordable and suitable home.

Prior to 2002, the provincial government was heavily involved in housing. It had funded (partially with the federal government, or completely through its own funding initiatives) the creation of many of the 265,000 units that comprise social housing and "other pre-1996" housing.

Since the transfer of social housing to municipal service managers in 2002, the Ministry no longer provides housing programs directly to Ontarians. Instead, it provides funding to municipal service managers through the affordable housing funds.

In 2010, the Ontario Government issued the Long-Term Affordable Housing Strategy (Strategy) which the Ministry is responsible for implementing. **Section 2.4** provides details on this Strategy and the Ministry's actions since 2010.

Figure 8: How a Service Manager's Allocation for Affordable Housing Programs Is Calculated

Source of data: Ministry of Housing

$$\text{Total Available Funding} = \frac{\left(\begin{array}{c}\%\text{ of Ontario households living}\\ \text{in service area}\end{array}\right) + \left(\begin{array}{c}\%\text{ of Ontario's core-housing need}^{*}\\ \text{households living in service area}\end{array}\right)}{2}$$

* Ontarians are considered to be in core-housing need when they pay more than 30% of their gross income in rent.

Canada Mortgage and Housing Corporation (Federal Level)

The Canada Mortgage and Housing Corporation (CMHC) is a federal Crown corporation that reports to Parliament through the Minister of Families, Children and Social Development.

Prior to 1986, the federal government unilaterally funded the construction of many of the 265,000 units. Since then, it has not been directly involved in the construction of new units, or the delivery of housing programs in Ontario in general. Today, the CMHC provides funding for social housing, but has no other responsibilities related to social housing. It also provides funding for some of the "other pre-1996" housing units.

The CMHC takes the lead role in funding the four affordable housing programs (discussed in **Section 2.1.2**). The provincial government matches this funding dollar-for-dollar.

2.4 Recent Developments

In 2010, the government issued the Long-Term Affordable Housing Strategy (Strategy). Although termed "strategy," the 2010 Strategy does not constitute an action plan—it essentially identifies several areas of improvement across four broad categories. The Ministry is tasked with developing and implementing an action plan to address the following four categories:

- ensuring that existing housing programs are aligned with people's needs;
- strengthening partnerships with stakeholders;
- providing additional tools to municipal service managers in developing new housing options and in retaining existing affordable housing; and
- clarifying roles and responsibilities of the provincial and municipal governments (service managers).

Six years later, in 2016, the Ministry published an update to this Strategy. The update detailed actions the Ministry will take to address areas of improvements in the four categories. For instance, the Ministry committed to make legislative changes to allow municipalities to direct private developers to build mixed-income housing and to eliminate extra charges that new home buyers have to pay when building secondary suites (such as basement apartments). The Ministry accomplished the legislative changes in 2016 and is currently working on developing regulations to implement the changes.

Below we also discuss other major actions that have been fully implemented since the 2016 update to the Strategy.

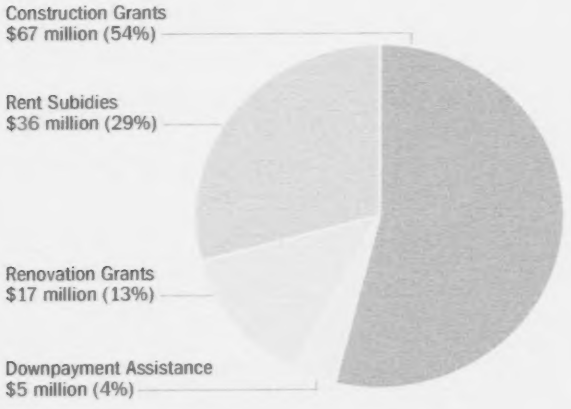
2012—The *Housing Services Act* Is Enacted

In 2012, the *Social Housing Reform Act, 2000* was repealed and the *Housing Services Act, 2011* (Act) enacted. This new legislation supported better decision-making at the municipal service manager level and helped clarify and redefine roles and responsibilities. For example, the older Act required ministerial consent for many items, such as mortgage renewals of housing providers; under the new Act, these decisions can be made at the municipal service manager level.

The Act also required municipal service managers to develop a 10-year Local Housing and Homelessness Plan to address local housing and

Figure 9: Average Amount Spent Annually for Four Affordable Housing Programs, 2011/12–2015/16

Source of data: Ministry of Housing



Note: Totals presented in this figure do not include about an average of $38 million in contributions made by municipalities. Breakdowns of municipal contributions amongst the four programs are not available.

homelessness needs. Municipal service managers are required to include in each of their plans an assessment of current and future housing needs in their areas; objectives and targets related to housing needs; and a description of how progress toward meeting the objectives and targets will be measured. The Act directs that municipal service managers review their plans at least every five years and adjust them as they consider necessary.

2016—Municipal Service Managers Are Now Required to Keep a Record of the Total Number of Homeless Persons in Their Area

Information on the number of homeless persons in Ontario can assist governments in developing better strategies to address local housing problems. Beginning in 2018, municipal service managers are required to record the number of homeless people in their area, with subsequent counts occurring every two years after that.

2016—Tenants Are Not to Be Requested to Vacate When They Stop Being Eligible for Social Housing

Since 2016, housing providers are not allowed to request former social housing tenants who are still residing in their buildings to vacate (unless they have committed social housing fraud). Prior to this, legislation was silent on whether a housing provider could request former social housing tenants residing in their buildings to vacate if the tenant ceased to be eligible for social housing.

2017—Implementation of Portable Subsidies for Social Housing

Previously, to meet the mandated requirement of providing social housing to 186,717 households, municipal service managers could only provide social housing benefits to the 186,717 households if the household was living in a dedicated social housing unit. Dedicated units are owned by housing providers who are legislated to provide units to a social housing tenant or are secured through contracts with other housing providers. In September 2017, the *Housing Services Act, 2011* was amended to allow municipal service managers to provide these subsidies to qualified households as a monthly, portable benefit, regardless of where they live. In other words, the subsidy can now be used toward paying rent in a market-rate rental unit.

3.0 Audit Objective and Scope

Our audit objective was to assess whether the Ministry of Housing (Ministry) has effective systems and procedures in place to oversee and co-ordinate, together with the federal government and municipalities:

- the delivery of social housing programs with due regard for economy and efficiency, and in compliance with prescribed requirements;

Figure 10: Roles and Responsibilities of the Parties Involved in the Delivery of Housing Programs in Ontario

Prepared by the Office of the Auditor General of Ontario

Role	Main Responsibilities
Housing Providers	• Collect rent from tenants; specifically for social-housing tenants: calculate a tenant's geared-to-income rent payable • Ensure that rental units are in adequate and suitable living condition, meeting all required health-and-safety standards • Manage the building and related facilities to ensure they are in good working order
Service Managers (Municipal Level)	• Oversee housing providers of social-housing units to ensure that they correctly calculate tenants' geared-to-income rent as per legislation, and ensure that they have adequate property-management practices • Oversee housing providers of "other pre-1996 housing" and "post-2002 housing" to ensure they provide rental units at below-market rents to eligible low-income households • Ensure that the minimum number of households in its service area that are required to received subsidized social housing, according to the *Housing Services Act, 2011*, do so (provincial total is 186,717 households receiving social-housing benefits) • Deliver the four affordable housing programs in accordance with joint federal/provincial program guidelines • Determine eligibility for social housing, and, for the most part, all four affordable housing programs; process applications for each program, and maintain social housing wait lists • Develop 10-year Housing and Homelessness Plans, which include an assessment of housing and homelessness needs in their areas and an action plan to address those needs
Ministry of Housing (Provincial Level)	• Develop regulations for the *Housing Services Act, 2011* (such as how geared-to-income rent is calculated) • Match federal contributions provided under the affordable housing funds, and establish high-level eligibility requirements and develop program guidelines for these programs • Co-ordinate the transfer of social housing funding from the federal government to municipal service managers • Provide assistance to certain municipally-owned housing corporations in addressing environmental remediation issues
Canada Mortgage and Housing Corporation (Federal Level)	• Maintain key policy and decision-making responsibilities for the four affordable housing programs, such as establishing funding stipulations, and guidelines on how the money can be used • Gather information on the number of Ontarians who live in core housing need (that is, their shelter costs account for more than 30% of their income). This information is used by the Ministry to calculate service managers' funding allocation for the four "affordable housing" programs. • Conduct vacancy and rent surveys twice a year and publish vacancy rates and average rents. This information is used by service managers to calculate the portable subsidies.

- a strategy that seeks alignment and encourages efforts of all government levels toward meeting the goal of ensuring that everyone in Ontario has an affordable and suitable home; and
- that program objectives are measured and reported to determine the effectiveness of the programs.

Our scope included social and affordable housing in Ontario. We did not examine supportive housing programs, such as housing and supports for adults with developmental disabilities, which are provided by the Ministry of Health and Long-term Care (last audited by our Office in 2016), the Ministry of Community and Social Services (last audited by our Office in 2014), and the Ministry of Children and Youth Services.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, and internal and external studies. Senior management at the Ministry reviewed and agreed with the suitability of our audit objective and related criteria, as listed in **Appendix 2**. Our audit work was primarily conducted between December 2016 and July 2017. We obtained written representation from the Ministry that, effective November 15, 2017, it has provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

Our audit was conducted primarily at the Ministry and nine of the 47 municipal service managers across Ontario: Durham, Halton, Lanark County, London, Ottawa, Peel, Toronto, Wellington and York. We also sent a survey to all 47 municipal service managers asking 96 questions to gain a better understanding of how housing programs are delivered across the province and to corroborate some of the issues we identified in our visits to the nine municipal service managers. A total of 38 municipal service managers responded (81% response rate).

In conducting our work, we interviewed key personnel at the Ministry's head office, including staff involved in making social housing policy decisions and administering the four affordable housing programs.

We also met with and interviewed social housing staff at municipal service managers involved in managing wait lists, conducting application intake, performing investigations into tenant eligibility, overseeing housing providers, and assessing the impact of expiring contracts with housing providers. We examined related data and documentation, including reviews of housing providers' operations and investigations into tenant eligibility.

We obtained social housing wait lists from three municipal service managers (which comprise over half of the total number of applicants on wait lists province-wide) to analyze attributes of applicants on the wait list.

We met with and interviewed municipal service manager staff involved in delivering the affordable housing programs. This includes staff involved in providing construction grants for affordable rental units, delivering the down-payment assistance program, and providing rental support payments to individuals. We also examined related data and documentation, including information on households that received down-payment assistance.

We contacted other jurisdictions in Canada and internationally to research how housing programs are delivered there. Within Canada, we contacted British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador. Internationally, we contacted housing departments in Denmark, England and Sweden.

4.0 Detailed Audit Observations

Ontario has a shortage of affordable housing, and the gap between the number of low-income households needing affordable accommodation and the number of homes available is steadily widening. Although the federal, provincial and municipal governments all play a role in the provision of social and affordable housing in Ontario, none take ownership of ensuring that everyone in Ontario has an affordable and suitable home.

While the Ministry is taking certain measures to make the current system more easily accessible and efficient, it does not have a comprehensive strategy to ensure value for money is achieved, including metrics and measurable outcomes, to address the province-wide issue with available resources.

The Ministry measures and reports limited information on the effectiveness of housing programs. Currently, the Ministry reports on the number of social housing subsidies provided, and selected information on how the affordable housing funds are being used (the number of new affordable

rentals constructed and/or funded, and the number of down-payment loans provided). However, throughout this report, we discuss the need for the Ministry and municipal service managers to gather and collect additional information to better measure the effectiveness of housing programs to ensure that value for money is achieved and province-wide issues can be addressed with available resources. The recommendations related to these observations are presented in the respective sections throughout the report.

4.1 Need for Social Housing Growing While Vacancies Decreasing

Our audit found that there is no provincial strategy to address the growing social housing wait lists (185,000 households waiting as of 2016) and the needs of the growing number of low-income Ontarians (1.9 million in 2016). Given the broader social and economic implications of so many Ontarians living in inadequate housing, it would be reasonable for the government to have a comprehensive strategy.

Although there continues to be debate in this area, legal experts generally agree that, constitutionally, neither the federal government nor the provinces are legally required to provide affordable housing, nor are they prevented from doing so. Although it is a common perception that municipalities are now responsible for housing, municipal service managers are in fact only responsible for providing social housing to 186,717 households as defined in the *Housing Services Act*. Applicants on their social housing wait lists, and other households needing below-market rentals, are not legally the municipalities' responsibility to address.

The Province has attempted to assign some of this responsibility to municipal service managers by requiring them to develop 10-year Housing and Homelessness Plans. However, the plans, for the most part, lack the clear objectives and quantifiable targets and outcomes needed to successfully address housing needs. This is likely due to the fact that municipal service managers have no legal obligation to invest in housing programs—apart from the almost 187,000 social housing subsidies they are required to provide.

In the following sections, we illustrate the increasing need for housing programs, and the challenges faced by those who do not receive the needed supports.

4.1.1 Rent Increases Have Outpaced Incomes, Contributing to Affordability Challenges for Ontarians

Rents in Ontario have steadily increased by an average of 2.3% every year for the past 10 years, to an average of $1,090 in 2016 (according to the Canada Mortgage and Housing Corporation). Rents in the Greater Toronto Area have risen even more—to an average of $1,230. However, average incomes in Ontario increased by only about 0.4% annually between 2000 and 2013 (according to Statistics Canada). This contributes to some Ontarians experiencing housing affordability challenges as their incomes have not kept up with the increasing cost of rent.

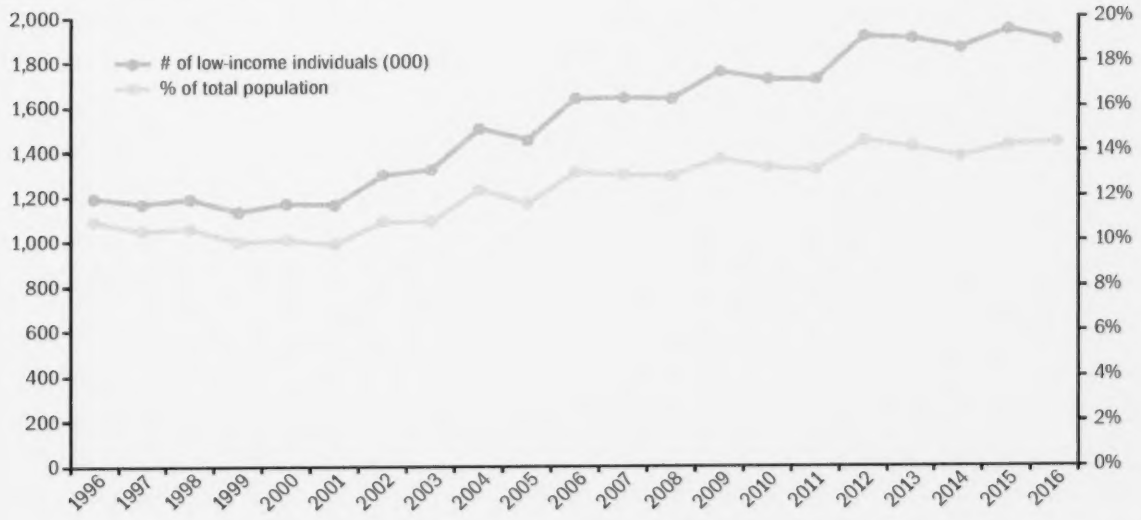
In addition, since 1996, vacancy rates in Ontario have been at, or below, the national average of 3% (as reported by the CMHC). In some areas of the province, the rate was as low as 1% in 2016. For instance, one municipal service manager we visited noted vacancy rates for affordable rentals were low in its area, and this enables landlords to charge market rents that can be unaffordable for low-income households.

Thus, due to insufficient rental housing available to low-income households, housing options can be scarce for them.

According to Statistics Canada, there were 1.9 million low-income individuals in Ontario in 2016. **Figure 11** shows the increase in the number of low-income individuals since 1996. Given the increase in rents and in the number of low-income individuals, there is the strong possibility

Figure 11: Number of Low-Income Individuals* (000), and as Percentage of Total Ontario Population, 1996–2016

Source of data: Statistics Canada



* Low-income individuals live in households that take home less than half of the median after-tax income for households of their size.

that many low-income individuals pay for rent that is unaffordable. When there were 1.9 million low-income individuals in Ontario in 2016, Statistics Canada reported that about 1.3 million individuals (70%)—paid for shelter costs that were unaffordable.

In addition, between 2007/08 and 2016/17, there was a 13% increase in the number of people who receive social assistance—further illustrating an increase in the number of low-income Ontarians.

4.1.2 Ontario's Social Housing Wait List Is One of the Largest in Canada

As of 2016, there were about 171,000 households (about 445,000 individuals) living in social housing units in Ontario. An additional 185,000 eligible households (about 481,000 individuals) were on wait lists for social housing units. Thus, about 3.4% of Ontario households are on municipal service managers' social housing wait lists. This is the largest social housing wait list when compared with other provinces. In other provinces, an average of 1.1% of households are on their social housing wait lists. **Figure 12** shows a comparison of wait lists in Ontario and other provinces as a percentage of total households.

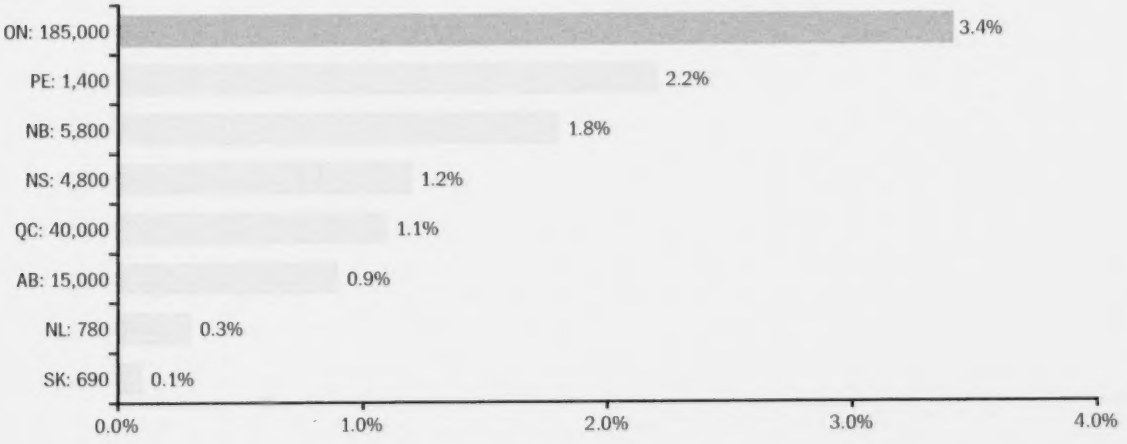
4.1.3 Social Housing Wait Lists in Ontario Increased by 36% in Past 13 Years

The number of applicants on wait lists for social housing in Ontario has, for the most part, steadily increased since the Ministry first started tracking this information in 2004. In 2004, there were 136,000 households on wait lists, compared with the 185,000 households waiting today. This is a total increase of about 36%. **Figure 13** shows the changes in the number of households on wait lists between 2004 and 2016. The increase experienced in the Greater Toronto and Hamilton Area was even greater—41%. This area accounts for about 71% of the total 185,000 households.

For the most part, the wait lists are equally comprised of three demographic groups: singles and couples (30%), families with dependants (33%),

Figure 12: Ontario's Wait List as a Percentage of Total Households Compared with Other Provinces*

Prepared by the Office of the Auditor General of Ontario based on information obtained from the Ministry of Housing and other provinces.



* British Columbia and Manitoba do not gather and track a consolidated wait list for social housing.

and seniors (37%). **Appendix 3** provides details of the composition of the wait list across the different service areas in the province.

Generally, the increases can be attributed to the increase in the number of low-income Ontarians (as discussed in **Section 4.1.1**) However, exact data on what has caused these significant increases—for example, whether they are a result of rising immigration to the urban centres and the rise in housing prices—has not been collected by the Ministry. Analysis of such information would assist in understanding the changing social housing needs.

4.1.4 Applicants on Social Housing Wait Lists Face Affordability Challenges

Although the Ministry does not collect information on the difficulties faced by those on wait lists, a few municipal service managers have conducted surveys of applicants on their wait lists to try to gain a deeper understanding of their situations. We obtained the results of three such surveys and noted that applicants are facing financial difficulties and affordability challenges.

In one area where about 6,000 individuals were on the wait list, the municipal service manager noted that single adults who received social assistance did not have enough income to afford market rents and frequently used emergency shelters. (Data on the frequency of emergency-shelter use by applicants was not available.) In addition, we noted:

- About one-fourth of households on its wait list paid about 40% of their income on rent. This is in excess of the 30% generally accepted as the standard for affordability.
- About 52% of households on its wait list were provisionally accommodated. This means that they roomed with family, friends or in other temporary housing arrangements with no security of tenure.
- About 22% of households on its wait list could not make rent and utility payments and owed arrears to their landlords or utility companies. About 5% of the applicants were currently under eviction proceedings.

In another area of the province, where about 480 individuals were on the wait list, the municipal service manager also surveyed the households on the wait list and noted that 17% of 163 survey respondents owed arrears, such as for rent or utilities.

Figure 13: Number of Households on Social Housing Wait Lists (2004–2016)

Source of data: Ministry of Housing

Year	Wait List	Increase/ (Decrease)	% Increase/ (Decrease)
2004	136,114		
2005	140,722	4,608	3.3
2006	139,677	(1,045)	(0.7)
2007	137,309	(2,368)	(1.7)
2008	136,954	(355)	(0.3)
2009	154,095	17,141	11.1
2010	163,386	9,291	5.7
2011	169,717	6,331	3.7
2012	174,642	4,925	2.8
2013	180,405	5,763	3.2
2014	181,429	1,024	0.6
2015	184,457	3,028	1.6
2016	185,179	722	0.4

In addition, one municipal service manager tracked that there were about 105 individuals who were homeless (12% of its wait list), and another 60 individuals lived in temporary housing with family and friends (7% of its wait list).

4.1.5 Social Housing Vacancies Have Fallen; Newer Applicants Will Experience Longer Wait Times

Wait times for applicants are long; **Figure 14** shows the average wait times we calculated from information obtained from the nine municipal service managers where we conducted field visits. Long wait times are a result of a limited number of vacancies being created annually. Applicants on the wait list can only receive a social housing subsidy if one of the existing 171,000 tenants leave or become ineligible and their housing subsidy can be provided to a new tenant.

However, few vacancies usually become available. The number of vacancies filled across the nine municipal service managers we visited fell by 18%–from 8,900 in 2012 to 7,300 in 2016–which

Figure 14: Wait Times* by Unit Type at Nine Service Managers

Source of data: Information obtained from nine service managers

Unit Type	Avg. Wait Time (Years)	Longest Wait Time (Years)
Bachelor	3.94	6.75
1 bedroom	5.26	11.50
2 bedroom	4.84	10.50
3 bedroom	5.53	11.35
4 bedroom +	7.29	16.42

* Wait times presented in this figure exclude those experienced by priority applicants who are victims of family violence, who account for about 5% of the wait list. Priority applicants' shorter wait times are not reflective of the time it takes for 95% of the other applicants to obtain social housing.

was about 5% of the total applicants on their wait lists. As a result, as **Figure 15** shows, wait times have continued to increase over the past five years in seven out of the nine municipal service managers we visited. This means newer social housing applicants will experience longer wait times than those experienced historically.

Although wait-time information and the number of vacancies filled each year are available at each municipal service manager, we noted that the Ministry does not obtain, track or analyze this information. Such central analysis would assist it in making informed policy decisions to potentially address the trend toward fewer vacancies being available for applicants. For example, collecting data could show whether the number of vacancies is dropping because units are in poor condition, or whether housing providers are not providing social housing units to social housing tenants. Such situations would require follow-up and remedies.

RECOMMENDATION 1

In order for housing programs to be designed and delivered based on actual needs in communities, we recommend that the Ministry of Housing:

- co-ordinate with municipal service managers to periodically gather and analyze information on social housing vacancy rates, wait lists, and the living conditions of individuals waiting to receive social housing, and other relevant data, and
- refine and design housing programs based on the needs identified.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The Ministry has relied extensively on core housing need data collected by the federal government to inform the design and delivery of housing programs. However, the Ministry recognizes the need for better and additional data to support the management of the housing system.

As part of implementation of the 2015 Data Strategy, the Ministry is working with service managers through a province-wide Data Forum to identify strategies to collect and manage more useful and meaningful data on housing and homelessness to support both the Province and service managers in the delivery of housing programs. Through the work of the Data Forum, the Ministry has begun the development of a household survey to collect outcome-based data to better understand whether housing and homelessness programs are meeting the needs of Ontario households. The Ministry will incorporate the recommendation in this work.

4.2 Housing Provided to Applicants on a First-Come First-Served Basis, Not on Assessed Need

In light of the fact that there are 185,000 households currently on wait lists for social housing, and only 5% of current units becoming available each year, it would be reasonable for the Ministry to take particular interest in ensuring that those households with the greatest need receive priority when units become available. The Act mandates

Figure 15: Change in Wait Times[1] at Nine Service Managers between 2012 and 2016

Prepared by the Office of the Auditor General of Ontario based on information obtained from nine service managers

Service Manager	Avg. Wait Time in 2012 (Years)	Avg. Wait Time in 2016 (Years)	Increase/ (Decrease) in Wait Times (%)
A	4.0	5.9	48
B	7.0[2]	9.4	34
C	1.6	2.1	31
D	2.6	3.3	27
E	4.4	5.0	14
F	5.7	6.3	11
G	3.5	3.7	6
H	2.2	1.8	(18)
I	8.3	6.5	(22)

1. Wait times presented in this figure exclude those experienced by priority applicants who account for about 5% of the wait list. Priority applicants' shorter wait times are not reflective of the time it takes for 95% of the other applicants to obtain social housing.
2. Service manager B was unable to provide 2012 wait times, so 2014 wait times for service manager B are presented instead.

that individuals experiencing domestic abuse must receive first priority. Beyond that, municipal service managers are not required to provide available subsidies based on needs. Rather, the Act requires that housing decisions be made according to when applicants were placed on the wait list.

Municipalities can establish local priorities, but not all do so, and as a result local priorities vary significantly across the province. For example, households at risk of eviction are prioritized in only two of the 47 areas in the province; in other areas, these households receive no priority.

We noted that other provinces—British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Prince Edward Island, and Newfoundland and Labrador—prioritize applicants based on assessed need, and not solely on when the applicant applied. For example, British Columbia assesses factors such as income level, current rent paid, and adequacy of current housing conditions when determining priorities. Saskatchewan uses a points-based system where affordability and adequacy of current living conditions are assessed;

the applicant with the greatest need gets housed first. Such needs-based assessment processes allow applicants to be prioritized based on multiple factors of needs—something that Ontario's system is unable to do.

Although the Ministry does not require them to do so, some municipal service managers gather information from applicants about matters other than their income level. In the sections below, we discuss the following categories of information some municipal service managers gather that help them to better understand applicant needs:

- *Assets*: what do the applicants own? **(Section 4.2.1)**
- *Financial stability*: are the applicants already receiving rent subsidies? **(Section 4.2.2)**
- *Residency*: are applicants currently living in other provinces or countries actually in need of social housing in Ontario? **(Section 4.2.3)**
- *Not considering, or declining, possible units*: what are the applicants' specific needs if applicants only consider units in a few buildings, or reject an offered unit? **(Section 4.2.4)**

4.2.1 Hundreds of Applicants on Wait Lists Own Assets of $500,000 or More

The Act allows municipal service managers to consider an applicant's assets when determining eligibility for social housing. However, not all municipal service managers gather this information and consider it when determining eligibility.

We obtained information from three municipal service managers we visited that gathered self-declared information on the value of assets owned by applicants on their wait lists. We found that, at these three municipal service managers, a total of about 900 applicants on their wait lists owned at least one home. The needs of these applicants are likely lower than those who do not own a home.

In addition, we noted that 30 of the 42 municipal service managers we visited or that responded to our survey had not established any asset limits for eligibility. Thus, applicants in these areas can own a home or other significant assets and still be eligible for social housing. For instance, in one such service area, 65 applicants declared assets valued at $1 million or more, and another 709 applicants declared assets valued between $500,000 and $999,000 (see **Figure 16**). The needs of these applicants are likely lower than those who do not own such significant assets.

The remaining 12 of the 42 municipal service managers had established such limits. **Figure 17** shows details on the asset limits set by these 12 municipal service managers. Because these limits are set by each of the 12 municipal service managers and not by the Ministry for the whole province, there can be significant differences from one municipal service manager to another. For instance, as **Figure 17** shows, an applicant who has more than $20,000 in assets would not qualify for social housing in Service Area A whereas an applicant owning as much as $100,000 would still qualify in Service Area J.

4.2.2 Some Applicants on the Wait Lists Are Already Receiving Rent Subsidies

Households on social housing wait lists that are already receiving some form of rental assistance, such as a monthly housing allowance, can take precedence over other households whose financial

Figure 16: Details on the Value of Assets Owned by Applicants on the Wait List of One Municipal Service Manager

Source of data: Information obtained from one service manager.

Value of Assets Owned	# of People on the Wait List
$1 million and more	65
Between $500,000 and $999,000	709
Between $100,000 and $499,000	1,395
Between $20,000 and $99,999	829
Between $1 and $20,000	2,826
No asset	8,187
Total	**14,011**

Figure 17: Limits on the Value of Assets That Can Be Owned in 42* Areas of the Province

Source of data: Information obtained from 42 service managers

Service Manager	Maximum Value of Assets that Can Be Owned in Order to Qualify for Social Housing ($)
1. A	20,000
2. B	30,000
3. C	50,000
4. D	50,000
5. E	single applicants: 50,000 couples and families: 75,000
6. F	single applicants: 50,000 couples and families: 75,000
7. G	single applicants: 50,000 couples and families: 75,000
8. H	75,000
9. I	100,000
10. J	100,000
11. K	100,000
12. L	single applicants: 100,000 couples and families: 200,000
Service Managers 13 to 42	No asset limits established

* We were able to obtain information on asset limits for 42 areas in the province through our field visits and survey respondents. Information on asset limits for the remaining five areas was unavailable because the Ministry of Housing does not track this information.

circumstances are more insecure simply because they were placed on the list sooner.

We obtained information from three municipal service managers on how many households on their wait lists were already receiving rental assistance and found that, in total, 8,700 households, or 8% of their combined wait lists of 107,000, were already receiving rental assistance (about 6%, 16%, and 19% of each individual wait list). Although the needs of the remaining 92% of households not receiving any rental assistance can be higher, they may actually be lower on the wait list, and be housed later, simply because of their application date.

4.2.3 Individuals Living in Other Provinces or Countries Are on Ontario Social Housing Wait Lists

About 60% (22 out of 37) of the municipal service managers that responded to our survey question on this issue indicated there were individuals on their wait lists who currently lived and/or worked in other provinces. As long as applicants have a legal status in Canada—that is, temporary, permanent or citizenship status—they can apply and remain on social housing wait lists in Ontario. There is no eligibility requirement to be currently living in Ontario to apply to receive social housing. Two municipal service managers were able to provide us information on about 420 applicants who were on their wait lists and who lived and/or worked in other provinces.

In addition, about 16% (six out of 37) of municipal service managers that responded to our survey question also indicated that there were individuals on their wait lists who currently live and/or work internationally. Again, as long as applicants have a legal status in Canada, they can apply and remain on wait lists regardless of what country they live in. Municipal service managers were unable to determine for us the exact number of such cases.

The Ministry does not require municipal service managers to gather and track information on the total number of applicants living and/or working outside of Ontario; therefore, this information is not available.

4.2.4 Some Applicants on Wait Lists Turn Down Units in Their Preferred Buildings, or Choose Few Buildings They Are Willing to Move Into

Applicants on a wait list can indicate which buildings they would like to move into. A unit is only offered if it is located in the building of the applicant's choice, in adequate physical condition, and has enough bedrooms to appropriately accommodate all family members. Applicants are

allowed to refuse up to three offers of suitable vacant units. After the third refusal, the applicant can be removed from the wait list and would need to reapply. However, until then, they continue to maintain their chronological spot on the wait list.

The Ministry does not require that municipal service managers gather information on why a household was only willing to move into a small number of possible buildings, or why it declined an adequate unit in a building it had indicated would be acceptable. Although there are many valid reasons this could occur—such as personal circumstances making it an inopportune time for the family to move—it is also possible that this could suggest that the household's need is not great enough to warrant it being at the top of the wait list. Without gathering and evaluating this additional information, municipal service managers and the Ministry cannot be sure that limited housing is being provided to those who need it.

Reasons for Refusal Indicate Some Applicants Do Not Have Great Need for Housing

We analyzed statistics on units being declined at 28 municipal service managers and found that 12,300 applicants, representing 8% of the total applicants on these municipal service managers' wait lists, had made one refusal. An additional 3,700 applicants, or 2% of the total, had made two refusals.

Two municipal service managers we visited surveyed applicants who had made such refusals and found that the majority of them cited one or more of these reasons: the applicants did not want to move at that time; they did not like the building aesthetically; they did not like the area; or they found the unit offered was too small for their preference. Such refusal reasons indicate that these households might not have been in great need of housing. However, they maintain a higher spot than others who have not yet received offers for a unit.

One municipal service manager also tracked the average number of years an applicant was on the wait list before declining a unit. It found that, on average, applicants who turned down an offered unit had waited six years before receiving that offer, and applicants who turned down two units had waited on average 8.4 years. Despite waiting for several years for these units, these applicants made refusals for personal reasons, and nevertheless continue to maintain a higher spot than those who had not yet been offered a unit.

Currently, the Act does not allow municipal service managers to consider refusals made, and the reasons for such refusals, when allocating available units.

Some Applicants Knowingly Accept Longer Wait Times by Selecting Few Buildings to Move Into

Applicants on wait lists can indicate which buildings they would like to move into; some have selected a small fraction of the total number of buildings available in their area. Given the limited availability of units, the fewer the buildings selected, the longer an applicant would knowingly have to wait for a unit.

For example, in one service area, about one-third of the applicants on its wait list have selected five or fewer buildings to move into. In comparison, the remaining two-thirds of applicants had selected an average of 24 buildings to move into. Similarly in another service area, about one-third of the applicants on its wait list have selected ten or fewer buildings to move into. In comparison, the remaining two-thirds of applicants had selected an average of 45 buildings to move into.

Although the Ministry does not require municipal service managers to track such building selection information, we noted that 10 out of the 38 survey respondents tracked such information as they felt it indicated an applicant's level of need. However, the Act does not allow municipal service managers to consider the number of buildings selected when allocating available units, and has not provided any direction or guidance on how to analyze building selections.

Collecting and analyzing applicants' rationale for why a household was only willing to move into a small number of buildings would help municipal service managers assess whether the choices were limited because the applicant did not have a great need for social housing, or because of other specific needs. Such needs include applicants staying within a school catchment area; staying within a specific community where cultural supports are available; staying close to family, friends, or child-care services; staying near medical services, particularly for seniors; or staying close to their work to avoid long and costly commutes.

RECOMMENDATION 2

To better ensure that limited resources are used to help households with the highest needs, we recommend that the Ministry of Housing work with municipal service managers on developing a new needs-based eligibility and prioritization process that incorporates relevant information, such as assets owned by applicants, when deciding who should receive social housing subsidies.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The Ministry recognizes that current wait list systems do not always best reflect who is in greatest housing need and do not always work optimally to match people with housing needs to the most appropriate form of assistance. The Ministry has committed to a more co-ordinated, effective access system as part of the update to the Long-Term Affordable Housing Strategy.

The Ministry will incorporate this recommendation into its continued work on access system improvements. This will include developing options for a needs-based eligibility and prioritization process to better match subsidies to households with the greatest need, and considering whether a more consistent province-wide approach to asset limits should be established.

4.3 Ontario Is Not Effective in Transitioning Tenants Off Social Housing

Unlike some other provinces, including British Columbia and Saskatchewan, where social housing recipients tend to transition out of social housing within five to seven years, social housing recipients in Ontario tend to stay in social housing for long periods of time.

In Ontario, there is little incentive for social housing recipients to earn more income and thereby lose their housing subsidy: a social housing recipient not working full-time has disposable income roughly equivalent to a non-social housing recipient working full-time earning minimum wage.

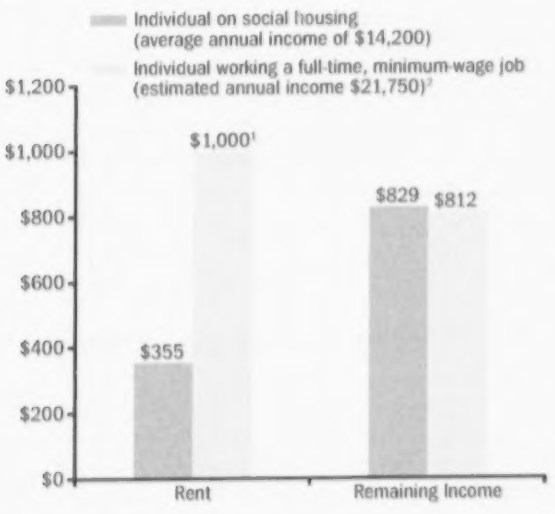
4.3.1 Social Housing Recipients Have Little Incentive to Earn More Income to Transition Off Social Housing

Two-thirds of all social housing tenants are families, couples or single adults who are non-seniors. Based on 2016 income information provided by the Ministry, we calculated that they had an average income of about $14,200 (comprising either social assistance income or employment income). We compared the disposable income these households have, after paying for social-housing rent, to those working full-time at minimum wage and not on social housing.

Figure 18 shows that the average social housing recipient, who is not working full-time, enjoys the same, if not more, disposable income after rent as the typical individual who works full-time at minimum wage but does not receive social housing. The average social housing recipient earned about $630 less per month than the typical individual working full-time at minimum wage, yet the social housing recipient still had about $17 more disposable income per month after rent. As a result, there is little incentive for some social housing recipients to strive to earn more income.

Figure 18: Income Comparison of a Social Housing Recipient vs. an Individual Working a Full-Time, Minimum-Wage Job

Prepared by the Office of the Auditor General of Ontario based on information obtained from the Ministry of Housing



1. The rent paid by an individual working a full-time, minimum-wage job is estimated to be at least the average market rent for a one-bedroom apartment, which is $1,000 a month.
2. Minimum wage of $21,750 annually is calculated based on a 37.5-hr work week for 50 weeks at a rate of $11.60 an hour.

Although our audit did find that there are social housing tenants who strive to earn more income and move out of social housing, we noted that this might not be the norm given that only 5% of social housing units are vacated each year.

4.3.2 Other Provinces Have Initiatives to Transition Tenants Off Social Housing

Even though Ontario has an employment supports system, we noted that there is a lack of co-ordination between the provincial employment support program, known as Ontario Works, and the municipal service managers delivering social housing. In particular, we noted that there are no targeted programs for social housing recipients—non-senior households (couples or single adults) who are able to work—to potentially improve their incomes, move to market units, and create vacancies for other individuals in need. The Ministry informed us that municipal service managers may provide such programs; however, through our survey and field visits, we noted that many municipal service managers did not provide such programs as they are not legally obligated to do so. As a result, we also noted that the Ministry does not have information on the number of tenants who successfully transition off social housing.

In comparison, we noted that other provinces have better integration of social housing and employment supports, which likely contributes to why they are effective in transitioning tenants out of social housing.

British Columbia provides educational assistance to social housing tenants who wish to upgrade their skills. In addition, in certain areas of the province, it also offers employment opportunities to youth living in social housing so they can build their resume and develop the skills needed for work. Further, in certain areas of the province, it provides tenants direct access to their own adviser, who assists in developing an integrated plan of setting financial goals, establishing budgets and savings targets, increasing employment opportunities, and continuing education.

Similarly, Manitoba has dedicated Tenant Services Co-ordinators who assist tenants with accessing education and training information to upgrade their skills, and provide financial counselling to improve tenants' financial literacy. Manitoba also partners with local health authorities to provide educational sessions on a variety of life skills and health topics aimed at equipping tenants with the skills and information needed to gradually transition off social housing. In addition, students living in social housing who wish to pursue higher education can apply for educational assistance grants (about nine such grants are provided annually).

Saskatchewan offers rent discounts to adults who choose to attend school to upgrade or continue their education. Ontario also offers rent discounts to students pursuing higher education; however, these incentives are not offered to all students.

Adults upgrading their education as mature students are not offered rent discounts that are offered to students who have recently graduated high school. In Ontario, students who pursue higher education within five years after graduating high school, do not have to pay geared-to-income rent. However students who pursue continuing education, after being out of school for at least five years, are required to pay geared-to-income rent on income they earn while in school. This creates a disincentive for mature adults to pursue higher education because in order to pay for tuition, which can be expensive for them, they would have to earn more income or take on debt. A rent discount would help alleviate some of this financial hardship.

RECOMMENDATION 3

To support social housing recipients in transitioning out of social housing, we recommend that the Ministry of Housing co-ordinate with municipal service managers, the Ministry of Community and Social Services, and the Ministry of Advanced Education and Skills Development to:

- develop and implement a process that provides dedicated supports, such as employment or educational supports, to those social housing tenants who are able to enter the workforce or upgrade their education; and
- track and report on metrics that assess the effectiveness of this transition process.

MINISTRY RESPONSE

The Ministry accepts this recommendation. It is consistent with the direction in social housing modernization to enhance opportunities for increased social and economic inclusion for social housing tenants. And it will build on the work some service managers are currently engaged in with local service delivery partners to encourage and support social housing residents to access education and employment opportunities.

4.4 Affordability Challenges Likely to Occur When Housing Contracts and Rent Supplements Expire over the Next Decade

We noted that the Ministry has not taken an active role in addressing the consequences of the impending expiration of contracts with housing providers. In the following sections, we discuss how some of these expirations have already taken place and have led to affordability challenges for low-income households—issues that the Ministry does not track and analyze, nor co-ordinate with the municipal service managers to address.

We also note that the Ministry has not taken an active role in addressing and ensuring that rent supplements it currently funds continue to be provided for some low-income households when their supplements expire.

Housing Providers May Need to Increase Rents When Contracts Expire to Have Sufficient Funds for Their Expenses

Prior to discussing the affordability challenges that can be faced by low-income households when contracts expire in the sections below, it is important to understand the deteriorating condition of many housing providers' finances.

Even if they do not want to do so, housing providers may have no choice but to eliminate rent-geared-to-income subsidies or convert units to market-rate rentals (which will lead to affordability challenges for low-income households) because of their deteriorating financial health. In 2012, the Housing Services Corporation (an organization whose mandate is to provide support services to housing providers) conducted and published a study on the financial viability of housing providers and found that 318 (69%) out of 464 providers they assessed were likely not financially viable; that is, they would not have sufficient finances to operate if they continued to offer these subsidies and below-market rents after their contracts expired.

As social housing buildings age, the need for repairs and renovations increases, putting greater pressure on the housing providers to eliminate rent-geared-to-income subsidies or convert units to market-rate rentals to cover costs.

4.4.1 Risk of 83,000 Existing Units Being Converted to Market Rents Is Not Being Monitored and Addressed

In addition to the issue of there not currently being sufficient social housing units in the province (as evidenced by the existing wait lists), there is the possibility that housing providers for about 83,000 units will convert affordable rental units to market-rate rental units at turnover—that is, when an existing tenant moves out and a new tenant moves in.

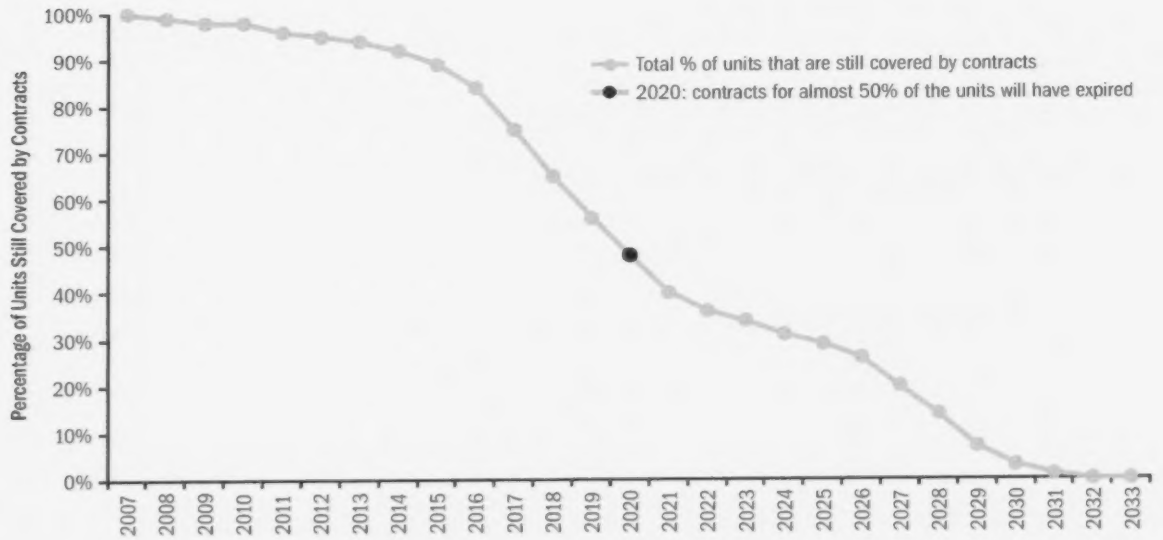
The Ministry does not have complete information on the number of units that have converted to market rents so far. We were able to gather this information from 16 municipal service managers that responded to the relevant question in our survey, and noted that 5,800 units in these service areas have already been converted to market-rate rentals (the total number of units with expired contracts was not available in these areas).

Province-wide, 50% of the contracts with housing providers will have expired by 2020, and the remainder by 2033 at the latest. **Figure 19** shows when contracts for the 83,000 units will expire. Of these 83,000 units:

- **31,000 units are social housing units that are not mandated by the Act to provide social housing when contracts expire.** The remainder of the social housing units (156,000 of the nearly 187,000) are mandated by the Act to continue providing social housing, regardless of any contract expiration.
- **52,000 units are "other pre-1996" units** that are not mandated to provide subsidized rentals when contracts expire. The remainder of the "other pre-1996" units (26,000 of the approximately 78,000 discussed in **Section 2.1.1**) are mandated by the Act to continue providing the subsidized rentals, regardless of any contract expiration.

Figure 19: Percentage of the 83,000 Units that Are Covered by Unexpired Contracts

Source of data: Prepared by the Office of the Auditor General of Ontario based on information obtained from the Ministry of Housing



Note: Information on the actual number of units covered by contracts each year is not available.

These 83,000 units currently account for almost one-third of the 285,000 affordable rentals across the province. Conversion of these units to market rents would result in even fewer housing options available for low-income Ontarians. In 2016, there were about 1.9 million low-income individuals in Ontario (discussed in **Section 4.1.1**), or about 748,000 households. Housing options for these households can be even more scarce if these affordable rentals are not available for them.

Ministry Is Not Addressing Impact of Potentially Losing 83,000 Affordable Units

The Ministry has done little to assess the potential long-term effects of the possible loss of these 83,000 units. To date, the Ministry has employed an unco-ordinated, patchwork approach to addressing the potential loss of these units.

Beginning in 2009, (two years after contracts had already begun expiring), the Ministry began providing funding to municipal service managers for housing providers' repair and rehabilitation projects (funding from 2009 to 2018 will total $1 billion). Municipal service managers could choose to use this money to fund projects at the 83,000 units, but they were not required to do so—they could use the funds for other housing providers' projects that were also in need of repair. The Ministry does not know how much of this funding has been used for other projects, nor does it know how many contracts have been renewed through the use of this funding.

We also noted that the Ministry had attempted to gather some high-level data on the number of units that have been converted to market-rate rents; however, that data was incomplete and was not detailed enough to determine the actual number of units that have already been converted to market-rate rents and those that are expected to be converted to market-rate rents at contract expiration. This information would be useful to determine the impact on the supply of affordable units because of contract expirations.

4.4.2 Risk of Rents Increasing for Some Tenants Currently Paying Affordable Rents Is Not Being Monitored and Addressed

Some of the tenants living in the 52,000 "other pre-1996" units (discussed in **Section 4.4.1**) receive rent geared-to-income benefits (benefits not covered by the Act and separate from the almost 187,000 households mandated by the Act). At the discretion of the housing provider, however, these benefits can be removed when contracts expire, leading to tenants paying full rent for their units.

The Ministry does not know how many tenants pay rent geared to income in these units because it does not collect this information.

At contract expiration, some housing providers have already removed these subsidies. In our survey, we asked municipal service managers how many such rental subsidies have been lost following the expiry of contracts to date. For the 12 of the 38 municipal service managers that responded to our survey that track this information, we noted that contracts for 256 subsidies had expired. Upon expiration, housing providers continued to provide subsidies for about half of the units covered by the expired contracts, but eliminated the other half of their rental subsidies (124 of 256). With respect to the units that continue to have a rental subsidy, the housing providers could eliminate the subsidies at their discretion in the future because they are no longer contractually obligated to maintain them.

Since many of the households living in these homes experience affordability challenges, even a small increase in rent could result in financial challenges. This situation is likely to be exacerbated in the next 15 years unless action is taken to address these challenges. For example, we noted that three housing providers whose contracts expired eliminated 81 subsidies to tenants (separate and in addition to the 124 subsidies above). All 81 households experienced rent increases, which they could not afford. In this instance, the municipal service manager intervened and provided each household a housing allowance of $250 per month.

However, even this amount might not be adequate to keep the household from financial distress. One municipal service manager provided us with a typical example: a senior household living in its area in a rent-geared-to-income unit and earning $15,560 annually paid monthly rent of $389 for a unit that could otherwise be rented for $962 per month (the difference of $573 is the subsidy being provided by the housing provider). Once the contract between the municipal service manager and the housing provider expires, if the housing provider eliminates the subsidy, the household would need to pay $962 per month. Even if the municipal service manager steps in with a $250 subsidy, the household would still be required to pay an additional $323 per month ($3,876 annually) increase. This would constitute a significant hardship for the senior household.

We noted that not all municipal service managers are tracking what housing providers are doing when contracts expire, nor are they all taking action to help tenants deal with such unexpected rent increases—there is no legal obligation for municipal service managers to do so. The Ministry also is not tracking this information.

Ministry Is Not Tracking and Addressing Impact on Tenant Affordability

The Ministry has done little to track and address the financial hardships faced by tenants as a result of the removal of subsidies by housing providers.

In 2016 (nine years after contracts had already begun expiring), the Ministry provided municipal service managers with funding that could be used to provide financial assistance to low-income tenants who were impacted by the removal of subsidies. However, municipal service managers were not required to provide assistance exclusively to tenants whose subsidies had been removed; they could also provide assistance to other low-income households. Since there is no legal obligation for municipal service managers to track how many such households there are and to assist them, it is uncertain whether all tenants who lost their subsidies have been helped. The Ministry also does not track this information.

RECOMMENDATION 4

To proactively assess the impact of housing providers' contract expirations on low-income tenants, we recommend that the Ministry of Housing work with municipal service managers to:

- identify the impact of contract expirations on the overall supply of affordable housing stock; and
- put in place options considered necessary to address the financial impact on low-income tenants of contracts expiring.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The Ministry has begun this analysis at a provincial level to support negotiations with the federal government concerning the National Housing Strategy (NHS) and the federal government's stated intention to reinvest its social housing savings.

The Ministry will continue this work with service managers as it completes the NHS negotiations and undertakes consultations on social housing modernization. One of the key objectives of social housing modernization is to minimize disruptions arising from social housing operating agreements and/or mortgages expiring, with associated federal subsidies expiring and to maintain the sustainability of social housing providers and the households assisted.

4.4.3 Ministry Has Not Confirmed Future Funding Levels for $50 Million in Annual Rent-Subsidy Funding about to Expire in 2023

In 2003, the Ministry began providing an average of $640 per month rent supplement to 6,500

households for a period of 20 years under the Strong Communities Rent Supplement Program (a program separate from social housing). These supplements are to expire in about six years, by 2023; however, the Ministry has not informed municipal service managers whether it will renew this funding.

We contacted three large municipal service managers that account for about 2,650 of the 6,500 subsidies, and noted that about half of the recipients are either individuals with disabilities or people who are now seniors. These are households for which a move could cause undue hardship, such as for seniors and those with mental health issues. Therefore, these supplements contribute significantly to the households' safety and stability. About $50 million is provided annually through this program.

However, municipal service managers we visited were not aware of the Ministry's long-term intentions with regard to continuing funding these rent supplements; almost all have neither planned nor budgeted for any potential $50 million shortfall. The municipal service managers are not legally obligated to provide these 6,500 rent subsidies should the Ministry stop its funding. Therefore, it is important for the Ministry to co-ordinate with the municipal service managers to determine what actions might be taken to support these particularly vulnerable households beyond 2023.

RECOMMENDATION 5

To provide clarity to municipal service managers and current recipients of the Strong Communities Rent Supplement Program, we recommend that the Ministry of Housing clearly communicate to municipal service managers its intentions about the future funding responsibilities of this program, and work with the municipal service managers to address the potential future needs of households currently funded.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The Ministry recognizes the importance of the Strong Communities Rent Supplement Program in assisting approximately 6,500 households annually to achieve greater housing stability, and therefore the importance of planning around transitions for these households to other forms of assistance if the program is discontinued in 2023. The Ministry fully intends to explore options in the appropriate government budget cycle.

4.5 Few Affordable Rental Units Built Since 1996

In Ontario, prior to 1996, all three levels of government funded the construction of the approximately 265,000 affordable rentals that still exist today (discussed in **Section 2.1.1**). This includes social housing units and "other pre-1996" housing. There was virtually no construction of affordable housing between 1996 and 2002. Since then, only about 20,000 units have been constructed, despite the fact that there are nearly nine times as many households on social housing wait lists.

Thus, Ontario's supply of 285,000 affordable units falls short of the demand as evidenced by the growing wait lists and increasing number of low-income individuals in Ontario. We compared Ontario's supply of affordable units with those of Denmark and England. We found that Ontario's affordable stock, as a percentage of its total population, was about 2%; in comparison, Denmark and England had at least about 11% and 8% of affordable stock as a percentage of their total populations.

In Ontario, few affordable units have been built in the last 20 years. Since 1996, only 20,000 new affordable rentals have been built. In comparison, about 61,000 market-rate rental units and 1.3 million new condominium units and houses have been added in that same period.

Currently, there are two main programs available to municipal service managers to increase the supply of affordable housing options that the Ministry and the federal government fund jointly: construction grants provided to developers to build affordable rentals, and down-payment assistance provided to low-income home purchasers. **Figure 20** provides details on the average funding provided per unit under the two programs. In the following sections, we discuss our observations related to these two programs.

4.5.1 Development by Not-for-Profits Is Not Being Encouraged

Not-for-Profits Need More Support to Build New Affordable Rentals

Not-for-profit organizations generally have more difficulty than private developers qualifying for construction grants because they do not have the required technical and financial resources to submit construction-ready projects without receiving additional supports (private developers do not face this challenge). For a project to be construction-ready, there are many phases that need to be completed, such as conducting site assessments, preparing construction drawings, estimating costs, securing financing, and obtaining municipal zoning approvals. These steps can take between two months to over two years depending on the size and scope of the project, and can be expensive to conduct.

We noted that, in 2016, the Ministry acknowledged that it was an issue that not-for-profits needed more support in applying for construction funding. However, it has not taken any steps to provide not-for-profits with the required supports.

Based on our review of files at nine municipal service managers, we found that in eight of the nine areas, only one-third of developers were not-for-profits versus two-thirds private (a small portion of development was done directly by the municipal service managers themselves). At only one municipal service manager we visited did we note that a large proportion of development was done by not-for-profits that were successful in qualifying for construction grants. The municipal service manager explained that the not-for-profit sector in the area was generally well equipped because the municipal service manager provided support throughout the process, not-for-profits in that area shared resources, and the area was known for successfully raising funds through large donations and fundraising events.

Benefits of Not-for-Profits Constructing New Rentals

Having not-for-profits construct new rentals is beneficial for two reasons. First, not-for-profits' objectives are to contribute to the community—by either not earning profits and gains, or re-investing profits and gains to build new units. The affordability benefits they provide can continue in perpetuity. In contrast, private developers are required to provide units at affordable rents only for a minimum of 20 years; after that, they are free to charge market

Figure 20: Per Unit Funding under Two Affordable Housing Programs

Source of data: Information obtained from eight service managers.

Program Type	Average Per Unit Funding Provided by Service Managers Visited ($)	Maximum Funding Allowable Under Program Requirements ($)
A. Construction grant: Financial incentives are provided to developers to construct units with below-market rents.	102,000	150,000
B. Down-payment assistance: Financial assistance is provided to low-income households to assist them in purchasing an affordable home.	21,000	50,000

rents for these units. For instance, a 2016 study of social housing providers completed by the Ministry found that, once their contract periods had expired, nine out of 10 private developers converted their affordable buildings to condominiums or increased rents to market rates. (Although these providers had originally developed social housing rather than the affordable rentals discussed in this section, it is fair to assume that private developers of affordable rentals might act in a similar fashion.)

Second, not-for-profits can provide the affordable rentals in a more cost-effective manner than private developers because they do not have an incentive to mark up prices to make a profit. We noted proposals submitted by not-for-profits and private developers varied significantly in cost because private developers were likely looking to maximize returns on their investment. For example, in one case, the not-for-profit proposed building affordable town homes and apartments at a cost of $189,000 per unit. In comparison, two private developers proposed building only apartments (and not the more expensive town homes) at over $242,000 per unit.

Furthermore, in less-populated areas, private developers have shown little to no interest in building new units, so not-for-profit development may be the only way to build new units. We contacted 14 municipal service managers across the province that had not provided construction grants in their areas. We found that, in nine, the municipal service managers did not provide such construction grants because private developers, which can easily qualify for the grants, had not shown interest in their areas, whereas not-for-profits, which can be interested, do not have the required supports to qualify for the funding.

Rule Changes Needed if There Is the Desire to Promote Not-for-Profit Partnerships to Build New Houses

The Province and federal government provide down-payment assistance to help existing low-income renters purchase homes under one of the four affordable housing programs. The intent of this program is to move people into a permanent home so that the family can have stable housing. Providing down-payment assistance results in a cost-effective, economical approach to increasing the supply of affordable homes: on a per-unit basis, this approach costs governments about one-fifth of what it costs to provide construction grants for new rental units (as shown in **Figure 20**).

In areas where home prices have risen and are expensive, low-income families cannot afford mortgage payments for existing expensive homes that are being sold in their areas. Therefore, municipal service managers try to collaborate with not-for-profits, such as Habitat for Humanity, to construct new homes at a reduced cost to the buyer. Not-for-profits can build new homes at a reduced cost because they do not charge a mark-up for profit, and they also reduce labour costs by using volunteer builders.

However, we found that three out of the four municipal service managers we visited that could benefit from these not-for-profit partnerships (because of rising home prices in their areas) were no longer providing this program or have started phasing it out. Their rationale was that the development of these partnerships was limited by various program restrictions:

- **Loans cannot be used to alleviate not-for-profits' potential financial difficulties during construction.** In one municipal service manager we visited, half of the housing units a not-for-profit planned to build could not be built because when the not-for-profit experienced financial difficulties during construction, funding stipulations prevented it from receiving government loans. Loans for this program can only be provided when a low-income household signs a purchase agreement. Therefore, if financial difficulties arise prior to that (as it did for the earlier not-for-profit), not-for-profits generally would not have other sources of cash to continue

construction. In comparison, under other affordable housing programs (such as the construction-grants and the renovation-grants programs), we noted that grants can be provided at multiple phases of the construction project, before an occupant has been found. This would ultimately alleviate financial difficulties that the not-for-profit developer faces during construction.

- **Loan funding is lost if houses are sold in a different year than planned.** The Ministry has a tight "use it or lose it" spending requirement—to receive a down-payment loan, a low-income household must sign an agreement to purchase the home in the year for which this funding was originally approved; otherwise, the loan is forfeited. However, it is difficult to ensure that such agreements can be signed within that planned year—a lot is dependent on other factors, such as zoning and construction delays, and the ability of interested low-income households to obtain sufficient financing. Thus municipal service managers risk losing funding if agreements are not signed within the planned year.

In order to avoid the risk of losing the funding, almost all municipal service managers that would benefit from building new houses through not-for-profit partnerships have decided to stop delivering this program or have started phasing it out.

In addition, we noted that when funding stipulations, such as the ones discussed above, do not exist, service managers can, in fact, successfully partner with not-for-profits to build affordable homes. For example, one municipal service manager who delivered a similar program, through its own municipal funds (and not the joint provincial-and-federal program), successfully constructed 49 affordable homes over the past five years. It did not have the above funding stipulations under its municipal program. In its program, funding is provided when major construction milestones are met—thus funding correlates to when construction costs are incurred by the not-for-profit.

In contrast, the joint provincial-and-federal program provides funding only after a buyer has signed a purchase agreement—an event which does not correlate to when constructions costs are incurred. This funding stipulation has prevented municipal service managers from partnering with not-for-profits to build affordable homes.

RECOMMENDATION 6

To encourage the not-for-profit sector to contribute toward increasing the supply of affordable housing, we recommend that the Ministry of Housing:

- co-ordinate with municipal service managers the sharing of best practices in encouraging and supporting the not-for-profit development of affordable rental units; and
- work together with the federal government to implement rule changes to allow the construction of affordable home-ownership units through grants, similar to the ones provided for the construction of affordable rentals, where funding is provided when construction milestones are met.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The not-for-profit sector is an important contributor to meeting housing needs. The Ministry is very interested in working with service managers and sector organizations, such as the Ontario Non-Profit Housing Association, the Co-operative Housing Federation and the Housing Services Corporation, to build on their existing work in this area.

The federal government has signalled in its most recent budget its intention to pursue a replacement program to the current Investment in Affordable Housing Program, which expires in 2018/19. The Ministry is interested in working with the federal government to explore how new construction investment can be maximized within the not-for-profit sector, and to explore

the most appropriate means of facilitating affordable home ownership.

4.5.2 Affordable Rentals Not Being Built in Less-Populated Areas Due to Inflexible Funding-Allocation Model

The formula used to allocate funding to municipal service managers to construct new affordable housing units appears appropriate, yet it makes it difficult for smaller communities, which receive much smaller allocations from the Ministry, to build new affordable multi-unit developments. (**Figure 8** shows how funding allocations are calculated.)

For instance, one municipal service manager received annual allocations of about $160,000 to $400,000 for the past several years (to spend across all four affordable housing programs). Its allocations were comparatively low because only 0.3% of Ontario's population lived in that area, and only 0.24% of Ontario's population who had a core-housing need lived in that area. With the limited funding it received, this municipal service manager could construct only one or two units in any given year (the maximum grant amount is $150,000).

Developers have no incentives to construct so few units because of the start-up costs to get such a project going. Costs to have staff and equipment on-site would be too high for such small construction projects to be economically viable. We noted that this municipal service manager has three vacant lots ready for construction, but annual allocations of $280,000 on average have prevented this municipal service manager from constructing new units. Another municipal service manager facing similar challenges identified that if it spent its entire allocation to build new rental units, it would not have funding left over to offer other types of housing supports, such as renovation grants for low-income homeowners.

In order to address this issue, the Ministry informed us that it co-ordinates the "swapping" of annual allocations between two service managers. Swapping is where a service manager with smaller annual allocations can trade, or *give up*, its allocation in a given year (or a portion thereof), in order to re-trade, or *take back*, that same amount during the year it plans to undertake the construction project. This allows service managers with smaller allocations to increase their allocations and attempt to deliver such projects. However, this process is dependent on finding a service manager who is willing participate in the swap and willing to change the timing of its planned spending.

As a result, nine of the 14 municipal service managers that did not provide grants for new rental construction cited the above reason for not taking part in this program. Instead, they spent funding they received to deliver any of the other three affordable housing programs (rent subsidies, down-payment assistance or renovation grants).

RECOMMENDATION 7

To better ensure that municipal service managers that receive small amounts of annual funding due to their size, are able to invest in projects that exceed their annual allocations, we recommend that the Ministry of Housing gather information on planned projects from these municipal service managers, prior to allocating funds, and work with them to allocate funding in a way that will better meet their needs.

MINISTRY RESPONSE

The Ministry accepts this recommendation. Currently, as outlined in the report, the Ministry facilitates "swapping" of annual funding allocations among service managers to enable smaller service managers to pool their multi-year funding into a single year. The Ministry will explore other options to help address local needs. The negotiation of a longer-term Investment in Affordable Housing Program successor agreement with the federal government would assist in this kind of planning.

4.5.3 Grant Limit of $150,000 per Unit Prevents the Construction of Affordable Rentals in Some Areas of the Province

The construction grant program allows municipal service managers to provide grants of up to $150,000 per unit. This grant amount is generally insufficient to attract developers to construct units in northern areas of the province, or to construct three- or four-bedroom units across the province.

We contacted five municipal service managers in Northern Ontario that had not provided grants for building affordable rentals. Four of the five explained that they did not provide grants because a $150,000 grant is insufficient to attract developers to Northern Ontario where construction costs are high. One municipal service manager estimated that construction costs in its area can be up to 33% higher than in southern Ontario. Another municipal service manager indicated that in its area, for remote communities where materials need to be shipped long distances, construction costs can be about 230% higher than in southern Ontario.

If the grant is not large enough to cover a significant portion of the developers' expenses, the developer will incur a loss. This can discourage developers from constructing affordable units in Northern Ontario.

In addition, a total of 18 survey respondents across the province indicated that there is a need to construct three- and four-bedroom rental units in their areas. For example, in one area of province, about one-fifth of the wait list have to wait about nine years for these large units. However, 13 of the 18 survey respondents (72%) indicated that a $150,000 grant is insufficient to attract developers to construct these larger units that have high construction costs.

4.5.4 Observations on the Two Remaining Affordable Housing Programs

In **Section 4.5** thus far, we discuss our observations with regard to two of the four affordable housing programs—construction of new affordable rentals through the $150,000 grants, and the construction of new affordable homes through the down-payment assistance program.

In our audit, we also reviewed the delivery of the two other affordable housing programs: rent subsidies and renovation grants. We noted that municipal service managers were generally using the funds for these programs as intended, and were providing the necessary supports to low-income individuals.

RECOMMENDATION 8

To enable construction grants to be used to address unmet housing needs, we recommend that the Ministry of Housing work together with the federal government to gather and evaluate information on actual construction costs for larger units across the province, and for all units in northern communities, and consider revising maximum grant amounts.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The Ministry recognizes in particular the importance of affordable family-sized units that are often not provided by the private sector. The Ministry will consider this aspect of program design in any new program opportunities and will consider updating grant amounts to reflect changing costs.

4.6 Municipal Service Managers Not Providing the Minimum Number of Social Housing Units Required by Law—and Ministry Takes No Enforcement Action

Although the *Housing Services Act* mandates that municipal service managers must provide social housing to a minimum of 186,717 households across the province, municipal service managers have not been doing so. Since 2004 (the first year this information is available), they have provided

social housing on average to 168,600 households per year. **Figure 21** shows the actual number of households assisted compared with the required standard for each year since 2004.

The Ministry has taken limited action to assess why municipal service managers have been providing social housing to, on average, around 18,120 fewer households annually than required, or to enforce compliance with the legislated standard.

In the sections that follow, we discuss the challenges municipal service managers face that have prevented them from providing social housing to all of the 186,717 households.

RECOMMENDATION 9

To help municipal service managers meet the legislated standard set out in the *Housing Services Act, 2011* of providing social housing to a minimum of 186,717 households, we recommend that the Ministry of Housing:

- track and report on the number of subsidies each municipal service manager provides compared to the legislated standard; and
- follow up with municipal service managers when the standard is not met to develop an action plan and remedial steps to attain the standard.

MINISTRY RESPONSE

The Ministry accepts this recommendation. Service managers annually report on the number of rent-geared-to-income and accessible units in their service area through the Service Manager Annual Information Return. Service managers are also asked by the Ministry to provide a rationale when there is a notable difference between the actual number of units in any given year and the legislated standards.

One measure that the Ministry has already put into place to assist service managers to meet their Service Levels Standard is allowing more flexibility around what qualifies. As outlined in this report, as of September 1, 2017, portable housing benefits that meet legislated requirements can count towards meeting the legislated standard.

Figure 21: Minimum Social Housing Subsidies Required under the *Housing Services Act* vs. Actual Provided

Source of data: Ministry of Housing

Year	# of Subsidies Service Managers Are Required to Provide	Actual # of Subsidies Provided	Subsidies *Not* Provided #	Subsidies *Not* Provided %
2004	186,717	146,933	39,784	21
2005	186,717	165,976	20,741	11
2006	186,717	168,233	18,484	10
2007	186,717	167,798	18,919	10
2008	186,717	160,740	25,977	14
2009	186,717	171,632	15,085	8
2010	186,717	171,284	15,433	8
2011	186,717	172,702	14,015	8
2012	186,717	174,632	12,085	6
2013	186,717	173,184	13,533	7
2014	186,717	173,634	13,083	7
2015	186,717	174,241	12,476	7
2016	186,717	170,805	15,912	9
Average	**186,717**	**168,600**	**18,117**	**10**

The Ministry also recognizes that further work is required. A greater understanding of the challenges that service managers face in meeting the current standard will be important in social housing modernization.

4.6.1 Tenants Who Become Ineligible for Social Housing Continue to Reside in Their Units

One reason municipal service managers cite for being unable to provide social housing to all required households is that the *Residential Tenancies Act* prevents them from requesting that tenants who are no longer eligible for social housing vacate their units (the subsidy is stopped, but the unit is not available for a new tenant). While it is important to ensure stable housing for vulnerable tenants, there are consequences, such as lack of unit availability, from providing social housing units indefinitely to all tenants.

Tenants become ineligible for social housing when their income is higher than the maximum income allowed. For instance, when a tenant's annual income is $1,000 higher than the maximum allowable income, the tenant must start to pay normal rents in that building and the municipal service manager will stop subsidizing the rent. However, the tenant is not required to vacate the unit. Thus, municipal service managers have historically only been able to provide social housing to applicants when a tenant voluntarily moves out of a dedicated social housing unit and a vacancy is created. (The newly implemented portable subsidy, in September 2017, can potentially assist in addressing these challenges. Our observations relating to the portable subsidies are presented in **Section 4.7**.)

As part of our survey of municipal service managers, we asked whether this prevents them from providing the legislated number of social housing subsidies. Thirty of the 38 municipal service managers that responded to this question said yes. However, the Ministry does not know how many ineligible tenants are continuing to occupy social housing units.

Other Provinces Able to Vacate Tenants Who Become Ineligible

Legislation in four Canadian provinces—British Columbia, Alberta, Saskatchewan and Manitoba—all specifically allow their housing departments to request ineligible tenants to vacate. This is so that the province can house applicants who are waiting for social housing units.

Three of these provinces enforce this either on a case-by-case basis or unilaterally across the board. One province informed us that it plans to begin enforcing the right to vacate ineligible tenants in areas where demand for social housing is high.

RECOMMENDATION 10

To allow social housing vacancies to be created when existing tenants become ineligible, and do not vacate, we recommend that the Ministry of Housing perform a jurisdictional analysis to assess and determine how best to increase vacancies in such instances, and consider implementing those best practices in Ontario.

MINISTRY RESPONSE

The Ministry accepts this recommendation. There are various ways to help service managers meet the legislated standards. This is why the Ministry has introduced a portable housing benefit option outlined in this report, as well as pursuing other ways of increasing the supply of housing that service managers can access for households on the waiting list.

Ontario's approach to delivering social housing is firmly rooted in the recognized best practice of mixing incomes within neighbourhoods and in specific buildings, where possible. This is particularly evident in not-for-profit and co-operative social housing buildings, which were originally designed as mixed income. Recent legislative changes to Ontario's *Housing Services Act* also clarified that municipally-owned housing can be mixed income and that achieving

market rent in a public housing unit is not a ground for eviction.

The Ministry will undertake a jurisdictional scan of best practices to augment current activities.

Municipal Service Managers Do Not Take Sufficient Action to Ensure Tenants Who Misrepresented Eligibility Information Are Being Vacated, When Appropriate

Not All Municipal Service Managers Conduct Tenant Eligibility Investigations

Although the *Housing Services Act* provides for municipal service managers to have eligibility review officers who investigate allegations of tenants withholding or misrepresenting information, municipal service managers do not always opt to have them. Eighteen of the 38 survey respondents indicated that they did not have eligibility review officers (20 municipal service managers indicated they did). These 18 municipal service managers did not have a process to investigate allegations and determine whether tenants were withholding information that could result in them being ineligible.

These investigations are an important part of ensuring that the Act is administered appropriately, and that social housing subsidies are provided to tenants who actually qualify for assistance.

Municipal Service Managers that Conduct Tenant Eligibility Investigations Do Not Conduct Sufficient Follow-up

Municipal service managers can legally, under the Act, request tenants to vacate units when service managers discover that tenants withheld or misrepresented information to receive subsidies they were not entitled to. However, we found that municipal service managers often do not request that housing providers ask such tenants to leave, or, if they do bring the situation to the housing providers' attention, they do not follow up to see what action the housing provider has taken. Housing providers often have little incentive to take action.

For example, 42% of the 59 investigations conducted by one municipal service manager in 2016 found that tenants had withheld or misrepresented information (such as underreported income, or sublet the unit to friends or family), and were found ineligible for social housing. In each of these cases, the municipal service manager was not aware whether the tenants had vacated, nor whether they had been requested to vacate by the housing provider.

RECOMMENDATION 11

To better ensure that social housing subsidies are provided only to eligible tenants, we recommend that the Ministry of Housing:

- require all municipal service managers to conduct eligibility review investigations; and
- require that municipal service managers develop and implement policies and procedures that are consistent across the province for requesting ineligible tenants who misrepresent eligibility information to vacate.

MINISTRY RESPONSE

The Ministry accepts this recommendation. The Ministry recognizes that it is important to address situations where tenants misrepresent information in order to receive social housing rent-geared-to-income assistance. Under the existing legislative framework, such day-to-day administration of social housing in Ontario is the responsibility of service managers. However, the Ministry recognizes that change is needed in this area. The Ministry will work with service managers to determine what changes are needed to better ensure that social housing subsidies are provided only to eligible tenants.

4.6.2 Thousands of Units Unused Because of Poor Condition of Repair

Vacant units can be offered to prospective tenants only if the units meet minimum health-and-safety

standards, such as being free of mould, pests and bugs. As well, buildings are also required to meet standards such as availability of hot water and heat and having a roof that does not leak. Many social housing buildings in the province were built decades ago, and are in need of rehabilitation and renewal.

In 2016, there were about 6,300 vacant social housing units that were not accessible to tenants. The Ministry does not collect information on the reasons for the individual vacancies, but it has acknowledged that a key reason is because physical units are in poor condition.

Survey respondents from five out of the 38 municipal service managers that responded indicated that they could not provide social housing to the required minimum number of households because vacant units were not in suitable condition. These five municipal service managers make up about half of the almost 187,000 households that must receive social housing under the Act.

For instance, a publicly available 2015 survey of social housing tenants in the City of Toronto found that 37% indicated there were pests or bugs in their buildings, 26% that walls or ceilings were deteriorating, and 23% that heating conditions were poor. One of Toronto's biggest housing providers, Toronto Community Housing Corporation, has publicly identified that it has over $2.6 billion in repair backlogs and that, without significant capital investment, about 46,000 units will be in poor and critical condition by 2023. It anticipates shutting down about 7,500 of these units because they will not meet minimum living standards.

We also noted that, in 2010, the Ministry identified housing providers' capacity as being an issue that prevents them from following proper property-management practices. It noted that housing providers often lacked sufficient experienced staff. It was only in spring 2016 that the Ministry established a working group and began discussions with stakeholders; to date, however, there have been no changes implemented.

Many Housing Providers Lack Adequate Asset-Management Plans, Leading to Deteriorating Building Conditions

To ensure their buildings and units are kept in good condition, housing providers are required to implement adequate asset-management plans and have sufficient reserves so that when vacancies are created, the units are provided in a suitable condition to rent to prospective tenants. Municipal service managers perform periodic operational reviews of housing providers to ensure housing providers, among other things, implement asset-management plans and have sufficient capital reserves.

At the nine municipal service managers we visited and at which we examined operational reviews, about half of the 81 housing providers we sampled did not have adequate asset-management plans or did not follow them, and in some cases they had depleted their capital reserves.

In order for a building to be adequately maintained as it ages, it is important that housing providers establish and update asset-management plans. For example, the exterior of a building may require seasonal maintenance and repair, while the windows may need replacing every eight to 20 years. These plans also ensure that all routine maintenance activities are scheduled, conducted and documented, and that the housing provider can monitor whether staff or contractors are completing the work as required.

Municipal service managers' reviews indicated that housing providers often did not maintain, update or implement such asset-management plans. As a result, these housing providers would not be able to adequately address deterioration of their buildings, nor anticipate when repairs to building components are required.

One municipal service manager informed us that the failure of a housing provider to implement an asset-management plan for heating systems resulted in numerous heating interruptions for 71 households over the course of two winters, including one heating interruption that lasted a consecutive 48 hours.

Some Housing Providers Have Depleted Capital Reserves Leading to Insufficient Finances for Major Repairs

In seven municipal service managers we visited that had evaluated whether housing providers had adequate capital reserves, we noted that about 30% of 60 housing providers we sampled had depleted capital reserves during the year that municipal service managers reviewed their operations.

A capital reserve is a specific account maintained by a housing provider to ensure that sufficient funds are available for future capital needs and repairs. For example, when a roof reaches the end of its expected life, the provider should be able to pay for the new roof out of the capital reserve fund, rather than out of the current year's operating budget.

The Act requires that housing providers make annual contributions to their capital reserves; however, municipal service managers indicated that housing providers often had depleted capital reserves because they had not consistently contributed every year, or contributed less than what they are required to contribute.

For example, a housing provider in one area was required to have $881,000 in its capital reserve, but had not apportioned $300,000 into its reserve; therefore, the reserve was short by one-third. As a result, the housing provider would likely not be in a position to pay for significant capital repairs when necessary.

RECOMMENDATION 12

To help ensure that vacant units are in adequate condition to be occupied, and to ensure the long-term sustainability of buildings, we recommend that the Ministry of Housing work with municipal service managers and the federal government to develop a strategy to address outstanding repairs and maintenance on social housing stock.

MINISTRY RESPONSE

The Ministry accepts this recommendation. Strategies and investments to secure the ongoing sustainability of social housing stock is a key aspect of Ontario's negotiations with the federal government regarding the National Housing Strategy investments.

New investments would build on previous Ministry funding through the Social Housing Asset Management Program to promote the use of up-to-date asset management practices in the municipal, non-profit and co-operative sectors. Current funding from the Province's Climate Change Action Plan is being put towards greenhouse gas reduction retrofits in social housing apartment buildings.

RECOMMENDATION 13

To encourage housing providers to make sound property-management and social housing administration decisions, we recommend that the Ministry of Housing:

- develop standards and accreditation ratings for housing providers for public reporting;
- require municipal service managers to evaluate providers' operations to determine an appropriate rating for each provider;
- gather and report on the results periodically; and
- provide training, resources and supports to housing providers to address the challenges they currently face.

MINISTRY RESPONSE

The Ministry accepts this recommendation. As part of social housing modernization, the Ministry will be consulting on standards for housing providers, as well as ways to measure and report on how standards are being met. Another area of focus is supporting capacity building for providers.

4.6.3 Housing Providers Have Been Found to Fill Vacancies with Non-Social-Housing Tenants

Housing providers are not required to provide 100% of their units to social housing tenants. According to their individual contracts, each provider is required to meet a certain target—for example, that 75% of its units be provided to social housing tenants while the remaining 25% could be offered to anyone else. These targets were mostly determined several decades ago when these buildings were first constructed.

Of the 38 municipal service managers that responded to our survey question on this topic, 11 indicated that they could not provide social housing to the required minimum number of households because providers were filling vacancies with non-social-housing tenants. These 11 municipal service managers make up about two-thirds of the almost 187,000 households that must receive social housing under the Act.

Our file review at municipal service managers we visited found:

- In one area, 29 of the 39 (74%) housing providers did not meet their social housing targets. One provider was supposed to provide 50 social housing units, but provided only 30.
- Similarly, 29 of the 34 (85%) housing providers in another area also did not meet their social housing targets.

Although, according to their contracts, the housing providers are legally required to meet their targets and provide the required number of units to social housing tenants, municipal service managers do not take action when housing providers do not do this. In many cases, they would lack the resources to take legal action against their housing providers even if they were inclined to do so.

The Ministry does not know how many units reserved for social housing were occupied by non-social-housing tenants.

Providers Avoid Social Housing Tenants Because of Complex Administration Requirements

Municipal service managers that responded to our survey indicated that one of the reasons why housing providers do not take applicants from social housing wait lists is that calculating tenant incomes is overly complicated. Tenants' rent payable is equal to 30% of their before-tax income, which is calculated based on rules and regulations prescribed under the Act. There are over 60 types of income that are specifically excluded from determining a tenant's income. For example, interest earned in a bank account for a balance of less than $5,000 is excluded from income, whereas interest earned on balances higher than $5,000 is included.

In addition, there are certain calculation requirements that result in inequitable rents for similar tenants. For example, the income of a full-time college or university student is excluded when calculating household income. However, if an individual returns to full-time post-secondary schooling after being out of full-time schooling for five years, their income is included when calculating household income.

Since 2010, the Ministry has acknowledged the complexities in calculating tenant's incomes. However, it was only in 2017 that it established a working group with a goal of addressing the complexities and simplifying rent calculations. At the time of our audit, however, the Ministry had not made any decisions on simplifying the rent calculations.

Complex Calculation Rules Contribute to Errors Made by Housing Providers

The Ministry has acknowledged that income-calculation rules can be confusing and difficult for providers to administer. One municipal service manager informed us that housing providers often make errors because of the complex rules in the Act for calculating and documenting tenants' incomes. Housing providers' staff who administer these calculations may not necessarily have

adequate financial background to administer all the rules correctly.

In municipal service managers' reviews of housing providers where they ensure providers are correctly calculating tenants' incomes and charging the correct rent payable, we noted that providers made frequent errors in calculating a tenant's income that resulted in the wrong rent being paid. For example, in six out of the 10 housing providers' reviews at one municipal service manager, we noted that housing providers made errors in calculating tenant incomes and had charged incorrect rents. Another municipal service manager reviewed one housing provider's rent calculations for a five-year period and found that, in total, the provider had overcharged some tenants by $20,000, and undercharged other tenants by $110,000, resulting in a net loss of $90,000.

Given that housing providers' staff find it difficult to work with the complex rules used in calculating income, it is not surprising that many tenants are also confused by these rules. Municipal service managers informed us that the complexities in the rules regarding declaring income create challenges for tenants being able to achieve compliance. This is especially true for those who face additional barriers such as lack of proficiency in English, or mental disabilities.

RECOMMENDATION 14

To better ensure that tenants' rents are calculated correctly and to reduce the administrative burden of calculating tenant rents, we recommend that the Ministry of Housing work with municipal service managers to simplify the rent-geared-to-income calculation in the *Housing Services Act*.

MINISTRY RESPONSE

The Ministry accepts this recommendation. As part of the update to the Long-Term Affordable Housing Strategy, the Ministry committed to working with service managers, housing providers, and other ministries to simplify the calculation of rent-geared-to-income (RGI) and harmonize the definition of income so it is consistent with other income-tested programs.

Following priority work on the Portable Housing Benefit Framework, the Ministry has initiated a working group on RGI simplification that will provide recommendations to government.

4.7 Ministry Implements New Portable Subsidy in Attempt to Address Issue of Municipal Service Managers Not Meeting the Legislated Standard for Social Housing Subsidies

As discussed in **Section 2.4**, in September 2017, the Ministry began allowing municipal service managers to provide *portable* social housing subsidies. Under the portable subsidy, social housing tenants are allowed to use their subsidy to pay rent for any unit they choose to live in, not just for units that have been specifically dedicated as social housing units. The municipal service manager provides the portable subsidy directly to the household, and the household uses that subsidy to pay rent to the landlord.

The portable housing subsidy, if used by municipal service managers, is a great tool to ensure that the standard of 186,717 subsidies required under the Act can be met going forward—the portable nature of the subsidy resolves the problems (identified in **Section 4.6**) that historically prevented municipal service managers from meeting this standard.

However, the availability of a tool does not ensure that municipal service managers will *use* the tool. We noted that the Ministry has acknowledged the risk that municipal service managers may be reluctant to implement and use the new tool to attempt to meet the unmet legislated standard. Since the Ministry does not enforce that the municipal service managers meet the legislated standard,

and the use of the new tool is not mandatory, there still exists a risk that the standard may continue not to be met.

RECOMMENDATION 15

To help ensure that municipal service managers meet the legislative standard of providing social housing to a minimum number of 186,717 households, as set out in the *Housing Services Act*, we recommend that the Ministry of Housing encourage the use of the new portable subsidies in service areas where the standard is not being met.

MINISTRY RESPONSE

The Ministry accepts this recommendation and will continue to encourage the service managers to use the new Portable Housing Benefit Framework to assist in meeting their service level standards. In addition, the Ministry will work with early adopters and develop an evaluation framework to assess the delivery and outcomes of the Portable Housing Benefit Framework.

Appendix 1: Minimum Number of Social Housing Subsidies That Municipal Service Managers Are Required to Provide as per the *Housing Services Act, 2011*

Source of data: *Housing Services Act, 2011*

Service Area	Minimum # of Subsidies
Algoma*	464
Brantford	1,645
Bruce	601
Chatham-Kent	1,365
Cochrane*	1,959
Cornwall	1,843
Dufferin	456
Durham	4,446
Grey	1,210
Halton	2,953
Hamilton	9,257
Hastings	1,980
Huron	529
Kawartha Lakes	871
Kenora*	867
Kingston	2,003
Lambton	1,075
Lanark	771
Leeds and Grenville	987
Lennox and Addington	497
London	5,939
Manitoulin-Sudbury*	323
Muskoka	476
Niagara	5,471
Nipissing*	1,522
Norfolk	656
Northumberland	677
Ottawa	16,502
Oxford	1,020
Parry Sound*	278
Peel	8,424
Peterborough	1,569
Prescott and Russell	682
Rainy River*	438
Renfrew	1,275
Sault Ste. Marie*	1,869
Simcoe	2,801
St. Thomas	946
Stratford	993
Sudbury	3,603
Thunder Bay*	3,601
Timiskaming*	589
Toronto	73,346
Waterloo	5,882
Wellington	2,342
Windsor	5,726
York	3,988
Provincial Total	**186,717**

* In Northern Ontario, each municipality is not a service manager; the Province established District Social Service Administration Boards that act as service managers for multiple municipalities.

Appendix 2: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1.	Roles and responsibilities are clearly defined and accountability requirements are established between the Ministry of Housing and Service Manager Organizations to ensure that housing programs are delivered equitably, effectively, economically, and in accordance with legislative, contractual and program requirements.
2.	Need for housing programs is monitored and resources allocated and planned for accordingly so that the provincial government's aim of ensuring eligible Ontarians have an affordable home is being met.
3.	Funding allocations are co-ordinated with the Canada Mortgage and Housing Corporation based on established needs, commensurate with the value of housing programs to be provided by Service Manager Organizations, and evaluated on a timely basis.
4.	Performance measures and targets are established, monitored and compared against actual results to ensure that the intended outcomes with respect to housing programs are achieved and that corrective actions are taken on a timely basis when issues are identified.
5.	Accurate, timely and complete financial and operational information is regularly collected on housing programs to assess their performance, effectiveness and efficiency and results are publicly reported.

Appendix 3: Demographic Composition of the Wait Lists across Municipal Service Areas, As at December 2016

Source of data: Ministry of Housing

	Single Adults and Couples		Families with Dependants		Seniors		Total
Service Area	#	%	#	%	#	%	#
Algoma*	59	23	83	32	118	45	**260**
Brantford	399	30	405	30	542	40	**1,346**
Bruce	69	19	128	35	168	46	**365**
Chatham-Kent	126	28	198	43	134	29	**458**
Cochrane*	528	33	628	39	444	28	**1,600**
Cornwall	175	24	271	37	280	39	**726**
Dufferin	109	21	233	45	176	34	**518**
Durham	2,525	42	1,583	26	1,966	32	**6,074**
Grey	143	23	146	23	345	54	**634**
Halton	1,266	38	1,161	35	894	27	**3,321**
Hamilton	2,646	44	800	13	2,508	42	**5,954**
Hasting	428	29	278	19	787	53	**1,493**
Huron	65	24	44	16	162	60	**271**
Kawartha Lakes	261	22	468	39	472	39	**1,201**
Kenora*	240	33	119	17	362	50	**721**
Kingston	252	23	160	14	703	63	**1,115**
Lambton	59	20	66	23	167	57	**292**
Lanark	108	23	101	22	255	55	**464**
Leeds and Grenville	54	15	115	33	184	52	**353**
Lennox and Addington	82	19	81	19	268	62	**431**
London	956	34	102	4	1,762	62	**2,820**
Manitoulin-Sudbury*	109	22	166	33	221	45	**496**
Muskoka	126	18	140	20	444	63	**710**
Niagara	1,053	24	1,868	42	1,522	34	**4,443**
Nipissing*	159	20	205	25	446	55	**810**
Norfolk	63	21	87	29	145	49	**295**
Northumberland	97	20	154	32	229	48	**480**
Ottawa	3,421	34	2,263	23	4,368	43	**10,052**
Oxford	405	27	272	18	823	55	**1,500**
Parry Sound*	106	26	68	17	232	57	**406**
Peel	6,150	47	3,484	27	3,324	26	**12,958**
Peterborough	235	16	635	42	646	43	**1,516**
Prescott & Russell	237	28	402	48	193	23	**832**
Rainy River*	47	48	20	21	30	31	**97**
Renfrew	310	31	234	23	452	45	**996**
Sault Ste. Marie*	258	20	295	23	752	58	**1,305**

	Single Adults and Couples		Families with Dependants		Seniors		Total
Service Area	#	%	#	%	#	%	#
Simcoe	698	22	1,354	43	1,123	35	**3,175**
St. Thomas	141	35	62	15	200	50	**403**
Stratford	53	23	30	13	144	63	**227**
Sudbury	209	14	473	32	794	54	**1,476**
Thunder Bay*	174	20	119	14	558	66	**851**
Timiskaming*	60	24	158	63	31	12	**249**
Toronto	25,513	28	31,171	35	33,211	37	**89,895**
Waterloo	1,068	39	726	27	917	34	**2,711**
Wellington	497	33	399	27	601	40	**1,497**
Windsor	1,173	35	862	26	1,315	39	**3,350**
York	3,402	24	7,756	55	2,874	20	**14,032**
Provincial Total	**56,314**		**60,573**		**68,292**		**185,179**
Provincial Average		**30**		**33**		**37**	

* In Northern Ontario, each municipality is not a service manager; the Province established District Social Service Administration Boards that act as service managers for multiple municipalities.

Chapter 4

Toward Better Accountability—Quality of Annual Reporting

Each year, our Annual Report addresses issues of accountability—and initiatives to help improve accountability—in government and across the broader public sector. This year, in addition to issues of accountability raised in our value-for-money audits, we have examined the quality of provincial agencies' and broader-public-sector organizations' public reporting on their activities through their annual reports. Thorough, clear and accurate disclosure of operational and financial information is essential to accountability, and is a mandated requirement for provincial and broader-public-sector entities. As this chapter highlights, there is room for improvement by many provincial agencies and broader-public-sector organizations in the quality of reporting in their annual reports.

1.0 Summary

A public-sector organization's annual report, including its audited financial statements, provides details about the organization's activities, and is meant to give the responsible minister, all members of the Legislature and the public a comprehensive view of the organization's operational and financial performance. The annual reporting requirements of provincial agencies and broader-public-sector (BPS) organizations are typically governed by the statute that created the agency, a Memorandum of Understanding (MOU) between the agency and its responsible minister, and/or a directive of Management Board of Cabinet. (An MOU is an administrative agreement that sets out the relationship between the agency and the responsible minister. It clarifies expectations and policies set out in the statute that established the agency.)

Publicly traded private-sector companies (that is, companies whose stock is traded on the open market) are also required by law to publish an annual report. Those reports are expected to meet high standards, informing shareholders about the company's financial results, spending patterns and overall financial and organizational health. We see no reason why the annual reports of public-sector organizations should be treated any differently—Ontarians support these organizations with their tax dollars and should therefore expect annual reports to contain thorough and useful information.

Most provincial agencies are required to produce their annual reports and submit them to their responsible minister within a specified time period. Ministers are then to review these reports and make them public, either by "tabling" them (officially presenting them) in the Legislature or by approving them for posting on an agency or government website. Similarly, broader-public-sector organizations, such as hospitals, colleges and universities, also

produce annual reports but do not submit them to the government for review. Rather, they are to be posted directly onto the organization's website within six months of the organization's year-end.

Government directives stipulate the mandatory content of most agencies' annual reports. In addition, the Public Sector Accounting Board (PSAB) has issued a Statement of Recommended Practice (SORP) with respect to matters of reporting supplementary information beyond that presented in the financial statements. SORP provides general guidance to organizations, including those that prepare an annual report. These reporting practices are encouraged but not mandatory.

We reviewed how agencies' annual reports adhere to government directives and to SORP's guidelines regarding annual reports. Specifically, we examined one directive that applies to provincial agencies and another that applies to broader-public-sector organizations, and compared their mandatory requirements to the information encouraged by SORP. SORP goes beyond both directives as follows:

- Provincial agencies and broader-public-sector organizations are required by directive to include performance targets in their annual reports. SORP encourages performance measures and their related targets to be "outcome"-based rather than just "output"-based. That is, the measures should not be limited to actions, services or products the entity undertakes (outputs) but should also measure the benefits or positive outcomes that result from those outputs.
- Provincial agencies and broader-public-sector organizations are required by directive to include an analysis of their performance in their annual reports or other information they make available to the public (provincial agencies must analyze both their financial and operational performance; broader-public-sector organizations are required to analyze just their operational performance). SORP encourages that analysis to include the significant risks and other factors that affected performance, and explain what that effect was.
- SORP encourages annual reports to inform readers of the costs of the performance results achieved, thus linking financial and non-financial performance information.

We encourage all public-sector entities to include in their annual reports not just the information required by the applicable directive but also the information SORP suggests. This would enhance the usefulness and reliability of their annual reports.

The directive that applies to broader-public-sector organizations has fewer requirements than the directive that applies to provincial agencies. Specifically, the annual reports of broader-public-sector organizations are not required to analyze the organizations' financial performance (including discussing variances between their actual financial results against estimates). We encourage these organizations to incorporate this analysis into their annual reports.

We found that only two of the 28 entities' annual reports that we reviewed contained all the selected SORP criteria as noted in **Figures 1** and **2** (the 28 entities were 15 provincial agencies, 12 BPS organizations and one "Other" organization, while two entities did not produce an annual report). We noted four others that met all but one of the criteria. The remaining annual reports were lacking more of the information that SORP recommends. We noted that the annual reports of one sector, in particular hospitals, would benefit from providing additional and more useful information for their readers.

We found that, overall, the entities' annual reports we reviewed were understandable and written in plain language. However, we did note areas where improvements could be made to strengthen accountability and transparency. Specifically:

- **Performance measures were not always clearly identified.** Four of the 15 provincial agencies, and five of the 12 BPS organizations did not clearly identify performance

Figure 1: Provincial Agencies' Incorporation of Selected SORP Criteria and Compliance with Selected Agencies and Appointments Directive Requirements in Their 2015/16 Annual Reports[1]

Prepared by the Office of the Auditor General of Ontario

	Included in Annual Report?						
Provincial Agency	Performance Measures[2]	Performance Targets[2]	Audited Financial Statements[3]	Financial Analysis[4]	Variance Analysis[4]	Linkages of Financial and Non-Financial Data[5]	Risk Discussion[6]
AgriCorp	Y[7]	Y	Y	Y	n/a[8]	Y	Y
Algonquin Forestry Authority	Y[9]	Y	Y	Y	Y	Y	Y
Liquor Control Board of Ontario	Y[9]	Y	Y	Y	Y	N	Y
Ontario Energy Board	Y[9]	Y	Y	Y	Y	Y	N
Ontario Lottery and Gaming Corporation	Y[7]	Y	Y	Y	Y	N	Y
Metrolinx	Y[7]	Y	Y	Y	Y	N	N
Northern Ontario Heritage Fund Corporation	Y[7]	Y	Y	Y	Y	N	N
Ontario Clean Water Agency	Y[9]	Y	Y	Y	Y	N	N
Ontario Infrastructure Lands Corporation	Y[9]	Y	Y	Y	Y	N	N
Ontario Securities Commission	Y[9]	N	Y	Y	Y	N	Y
Local Health Integration Network–Toronto Central	Y[10]	Y	Y	N	n/a[8]	Y	N
Agricultural Research Institute of Ontario	N	N	Y	N	N	N	N
Education Quality and Accountability Office	N	N	Y	N	N	N	N
Ontario Educational Communications Authority (TVO)	N	N	Y	N	N	N	N
Ontario Science Centre	N	N	Y	N	N	N	N
% of agencies that included this content	**73**	**67**	**100**	**67**	**69**	**27**	**33**
% of agencies that did not include this content	**27**	**33**	**0**	**33**	**31**	**73**	**67**

1. Provincial agencies are ranked from most to least adherent to SORP criteria and Directive requirements in their 2015/16 annual reports.
2. Performance measures and performance targets relate to Directive requirements of analysis of operational performance as detailed in the Treasury Board Secretariat Guide to Developing Annual Reports for Provincial Agencies as well as SORP criteria to describe actual results and compare them with planned results, explaining any significant variances.
3. Audited financial statements are a Directive requirement.
4. Financial Analysis and Variance Analysis related to the SORP criteria in footnote 2, as well as criteria to provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided. These criteria also relate to the Directive requirement for analysis of financial performance as detailed in the Treasury Board Secretariat Guide noted above.
5. Linkages of Financial and Non-Financial Data relates to the SORP criteria to link financial and non-financial information to show how resources and strategies influence results.
6. Risk Discussion relates to the SORP criteria to identify significant lessons learned during the reporting period and the implications arising from them, as well as to include information about key factors critical to understanding performance.
7. Performance measures include both output-based and outcome-based measures.
8. There was no significant variance requiring analysis.
9. Performance measures are output-based only.
10. Performance measures are outcome-based.

Figure 2: Broader-Public-Sector Organizations' Incorporation of Selected SORP Criteria in Their Annual Reports, 2015/16[1]

Prepared by the Office of the Auditor General of Ontario

	Included in Annual Report?					
	Performance Measures[2]	**Performance Targets[2]**	**Financial Analysis[3]**	**Variance Analysis[3]**	**Linkages of Financial and Non-Financial Data[4]**	**Risk Discussion[5]**
Broader-Public-Sector Organization						
Norfolk General Hospital	Y[6]	Y	Y	Y	N	N
Brock University	Y[7]	N	Y	Y	N	N
Cambrian College	Y[6]	Y	Y	N	N	N
Queen's University	N	N	Y	Y	N	Y
Georgian College	Y[6]	Y	N	N	N	N
Muskoka Algonquin Healthcare	Y[6]	Y	N	N	N	N
Seneca College	Y[8]	Y	N	N	N	N
Mohawk College	Y[7]	N	N	N	N	N
Halton Healthcare Services Group	N	N	N	n/a[9]	N	N
Humber River Regional Hospital	N	N	N	n/a[10]	N	N
St. Joseph's Health Centre–Toronto	N	N	N	n/a[9]	N	N
Trillium Health Partners	N	N	N	N	N	N
McMaster University[11]	n/a	n/a	n/a	n/a	n/a	n/a
University of Toronto[11]	n/a	n/a	n/a	n/a	n/a	n/a
% of organizations that included this content	**43**	**36**	**43**	**45**	**14**	**14**
% of organizations that did not include this content	**57**	**64**	**57**	**55**	**86**	**86**
Other						
Ontario Power Generation	Y[8]	N	Y	Y	Y	Y

1. Broader-public-sector organizations are ranked from most to least adherent to SORP criteria and Directive requirements in their 2015/16 annual reports.
2. Performance measures and performance targets relate to SORP criteria to describe actual results and compare them with planned results, explaining any significant variances.
3. Financial Analysis and Variance Analysis related to the SORP criteria in footnote 2, as well as criteria to provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided.
4. Linkages of Financial and Non-Financial Data relates to the SORP criteria to link financial and non-financial information to show how resources and strategies influence results.
5. Risk Discussion relates to the SORP criteria to identify significant lessons learned during the reporting period and the implications arising from them, as well as to include information about key factors critical to understanding performance.
6. Performance measures include both output-based and outcome-based measures.
7. Performance measures are outcome-based.
8. Performance measures are output-based only.
9. There was no significant variance requiring analysis.
10. Not able to determine variance as information was not available to do so.
11. An annual report was not prepared.

measures. Ontario Power Generation included performance measures in its annual report. Many agencies disclose their performance measures in their business plans rather than in their annual reports. Given that the annual report is a summary of an agency's performance during the year, a reader would expect some discussion of the entity's performance measures in this report rather than having to read multiple reports to determine how the entity assesses its performance.

- **Lack of analysis of performance results.** Of the 28 annual reports we sampled (an additional two organizations did not have an annual report), only 15 (54%) disclosed performance targets, and of them, 12 (80%) included a discussion of their reported results or outcomes in relation to their previously set performance targets. This discussion is crucial for the entity to identify where it did not meet targets and the reason why targets were not achieved. It is also an opportunity for the entity to discuss possible strategies to address the shortfall.
- **More outcome-based results are needed.** We noted that there is a need for more outcome-based reporting in annual reports. Outcomes are the consequences of the outputs; in other words, they report on the consequences of actions taken, such as the benefits of a service or program. Generally, output-based measures are easier to compile as they describe an entity's level of activity. Outcomes are more difficult to track and compile but would provide more meaningful information to the public.
- **Financial analysis did not exist in many annual reports.** Overall, five of the 15 provincial agency annual reports and eight of the 12 BPS organizations' annual reports we reviewed did not contain an analysis of financial performance. The other entity in our sample, Ontario Power Generation, included an analysis of financial performance. All provincial agencies we reviewed included audited financial statements in their annual reports while approximately half of the BPS organizations included audited financial statements in their annual reports. The annual reports of BPS organizations that did not contain audited financial statements posted their audited financial statement on their websites with the exception of one organization. While the inclusion of audited financial statements alone is not considered financial analysis, it does provide a starting point for the reader. Inclusion of some discussion and analysis of financial performance in relation to an entity's goals and objectives is critical to helping the public understand this aspect of performance.
- **Financial and non-financial information not sufficiently linked.** Four of the 15 provincial agency annual reports and none of the 12 BPS organizations had this linkage. Ontario Power Generation has this linkage. The linking of financial and non-financial performance information helps the reader assess how the entity used its resources during the reporting period and what was achieved as a result of the resources expended.
- **Key risks public entities are facing were often not explained.** Ten of the 15 provincial agency annual reports and 11 of the 12 BPS organizations were missing a discussion of or were limited in their discussion of risks. Ontario Power Generation included a risk discussion in its annual report. A thorough discussion of risks provides the Legislature and the public with insight on risks the entities are facing, the consequences, and the entities' plans to address the risks.
- **Lack of performance measures and targets in the Province of Ontario's 2015/2016 Annual Report.** Without a discussion of how the Province measures its performance and the applicable targets, the public has little idea if the Province met its stated goals.

Overall Conclusion

Based on our review of the annual reports of 27 provincial entities, we noted that two 2015/2016 annual reports met all the selected SORP criteria as noted in **Figures 1** and **2**: AgriCorp and Algonquin Forestry Authority. Four other annual reports in our sample met all but one criterion: the Liquor Control Board of Ontario (LCBO), the Ontario Energy Board, Ontario Power Generation and the Ontario Lottery and Gaming Corporation. These six entities included in their annual reports performance measures that were clear and included performance targets. Their annual reports also included thorough financial and variance analysis (except AgriCorp, as no significant variances were identified).

The provincial entities in our sample were ranked based on the SORP criteria as shown in **Figure 3**, using the following ranking system: Very Good (6–7 SORP criteria met); Good (3–5 SORP criteria met); and Fair (0–2 SORP criteria met).

With respect to compliance with the Agencies and Accountability Directive, we noted that nine (60%) of the 15 provincial agencies' 2015/16 annual reports we reviewed met all the selected Directive criteria, with an additional two (13%) annual reports meeting all but one criterion. All annual reports included audited financial statements as required by the Directive. As shown in **Figure 4**, seven (50%) of the 14 broader-public-sector organization websites we reviewed met the

Figure 3: Ranking of Sampled Entities According to Their 2015/16 Annual Reports' Incorporation of Selected SORP Criteria

Prepared by the Office of the Auditor General of Ontario

Entity Category	Very Good*	Good*	Fair*
Provincial agency	• AgriCorp • Algonquin Forestry Authority • Liquor Control Board of Ontario • Ontario Energy Board • Ontario Lottery and Gaming Corporation	• Metrolinx • Northern Ontario Heritage Fund Corporation • Ontario Clean Water Agency • Ontario Infrastructure Lands Corporation • Ontario Securities Commission • Local Health Integration Network—Toronto Central	• Agricultural Research Institute of Ontario • Education Quality and Accountability Office • Ontario Educational Communications Authority (TVO) • Ontario Science Centre
Broader-public-sector organization		• Norfolk Hospital • Brock University • Cambrian College • Queen's University	• Georgian College • Muskoka Algonquin Healthcare • Seneca College • Mohawk College • Halton Healthcare Services Group • Humber River Regional Hospital • St. Joseph's Health Centre—Toronto • Trillium Health Partners
Other	• Ontario Power Generation		

Note: McMaster University and the University of Toronto are not ranked as they did not have annual reports.

* Ranking system: Very Good (6–7 SORP criteria met); Good (3–5 SORP criteria met); and Fair (0–2 SORP criteria met).

Figure 4: Broader-Public-Sector Organizations' Compliance with Their Directive's Requirement[1] That They Include Key Criteria on One Webpage on Their Websites

Prepared by the Office of the Auditor General of Ontario

	Is the information publicly available on one webpage?			
Broader-Public-Sector Organization	**Key Activities**	**Performance Targets**	**Analysis of Operational Performance**	**Audited Financial Statements**
Cambrian College	Y	Y	Y	Y
Georgian College	Y	Y	Y	Y
Halton Healthcare Services Group	Y	Y	Y	Y
Mohawk College	Y	Y	Y	Y
Norfolk General Hospital	Y	Y	Y	Y
Seneca College	Y	Y	Y	Y
Trillium Health Partners	Y	Y	Y	Y
Brock University	Y	N[2]	Y	Y
Humber River Regional Hospital	Y	Y	Y	N[2]
McMaster University	Y	N[2]	Y	Y
Muskoka Algonquin Healthcare	Y	Y	N[2]	Y
St. Joseph's Health Centre–Toronto	Y	N[3]	Y	Y
Queen's University	Y	N[3]	Y	N[3]
University of Toronto	Y	N[2]	Y	Y
% of organizations that included this content	**100**	**64**	**93**	**86**
% of organizations that did not include this content	**0**	**36**	**7**	**14**

1. Broader-public-sector organizations are required to comply with the Broader Public Sector Business Documents Directive's requirement that they include certain key information on one webpage of their websites.
2. This information was not available on the organization's website.
3. We noted that although the information was publicly available, it was not on one webpage as required by the Broader Public Sector Business Documents Directive. The information was located on other webpages within the organization's website.

Broader Public Sector Business Documents Directive's requirement to include certain key information all on one webpage. In total, nine (64%) of the 14 broader-public-sector organizations had all the selected Directive criteria on their websites albeit not always on one webpage.

We encourage provincial agencies and broader-public-sector organizations to go beyond their applicable directives when determining their annual reporting requirements and use the Statement of Recommend Practices #2—Public Performance Reporting to enhance their annual reports.

OVERALL RESPONSE FROM TREASURY BOARD SECRETARIAT

The Treasury Board Secretariat (Secretariat) is committed to enhancing transparency and accountability with respect to the content of annual reports, and appreciates the attention to annual reports and the advice on improvements. The Secretariat is also committed to providing information to members of the public, supporting ease of access to information about how public money is managed. The Secretariat will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports. Consideration will be given to the many different means of providing direction

and guidance, including directives, supporting materials, and outreach and education. This may include reviewing formats and channels through which information is dispensed to ensure they reflect modern communication approaches. As a regular part of our work on oversight and governance, the Secretariat engages partners and stakeholders to ensure that we employ an evidence-based approach when selecting the most appropriate and effective route to achieving change.

2.0 Background

2.1 What Is an Annual Performance Report?

An annual performance report, commonly called an annual report, is intended to provide Members of Provincial Parliament (MPPs), the public and other key stakeholders with information about an entity's activities, and the extent to which the entity's objectives and goals were achieved and at what cost. It provides a retrospective look at the fiscal year and is expected to include information on how an entity met its performance targets, outline notable accomplishments, and provide a means for sharing financial statements and other information about the entity's operations.

2.2 Why Are Annual Reports Important in the Public Sector?

Public-sector performance reporting is the main vehicle by which an entity discharges its accountability to the Legislature and the public. It is a fundamental tool of good management. Primary users of government agency annual reports are elected officials, the public and other key stakeholder groups.

Public-sector entities exist to carry out public policy objectives set out in the entities' applicable legislation or other governing documents. It is in this context that public-sector performance can be reported in order to demonstrate accountability as to how these public policy objectives are being met and how the agency's resources, including public funding and/or self-generated revenue, was used.

As a result, annual reports are a critical part of the accountability relationship between the agencies and the ministries responsible for them. The annual report can provide the public with the information necessary to evaluate the agency's performance, while informing the Legislature, the public and other stakeholders of the agency's direction. Although agencies are not part of a ministry, they are accountable to the responsible minister for fulfilling their legislative obligations, managing their resources and maintaining the appropriate standards for any services they provide. The governing board of an agency is immediately accountable to the responsible minister for the agency's performance. Agency management is responsible for carrying out the board's direction. **Figure 5** illustrates this relationship.

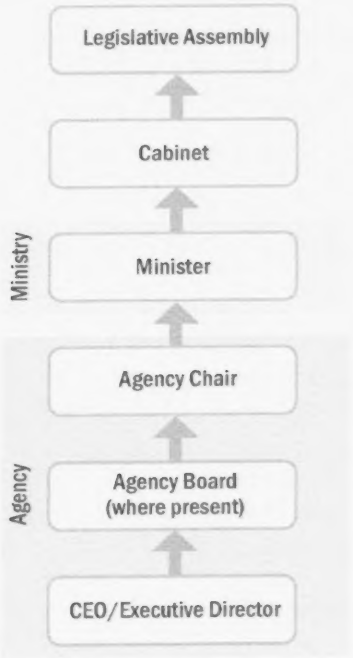
2.3 Are Provincial Agencies and Broader-Public-Sector Organizations Accountable to the Public?

Provincial agencies are established by legislation, regulation or Order-in-Council. A provincial agency is accountable to a minister for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides. It has the authority and responsibility, granted by the government, to perform ongoing public functions or services that involve adjudicative or regulatory decision-making, operational activity, or advisory functions. Examples of provincial agencies include the Liquor Control Board of Ontario (LCBO), Metrolinx, the Ontario Energy Board and TVOntario (TVO).

Broader-public-sector organizations, as defined under the *Broader Public Sector Accountability Act*,

Figure 5: Accountability Framework for All Provincial Agencies

Source of data: Management Board of Cabinet



include, for example, hospitals, universities, colleges, school boards and Children's Aid Societies.

To ensure that the Legislature and the citizens of Ontario are well served by provincial agencies and broader-public-sector organizations, good governance and accountability practices are essential. Therefore, these entities are ultimately answerable to the Legislature and the public to ensure that they are operating effectively, fulfilling their mandates and meeting their objectives. They are also accountable for how the public funds they receive from the Province are spent.

Ready access to information about entities' operations and finances, including annual reports, is important to open and transparent government. In October 2013, the Premier announced the launch of the Open Government initiative, focusing on finding ways for the government to be more open in its activities, including putting government data online. Although the initiative does not specifically refer to provincial or broader-public-sector entities, enhancing public accessibility through agency annual reports would be in line with the intent of Open Government.

2.4 What Types of Organizations Are Required to Publish Annual Reports?

Provincial agencies and many broader-public-sector organizations are required to produce annual reports.

Each year, provincial entities spend public funds allocated to them by the Province to undertake activities in the public interest. The annual reports of these entities are expected to detail the entities' activities and expenditures to inform all Members of Provincial Parliament and the public whether the entities have achieved their goals and how they have spent their money. Some provincial entities, such as the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario, generate their own funds for the Province.

In some cases, the legislation, regulation or Order-in-Council that established the provincial entity specifies that the entity must produce an annual report; in other cases, it is the Management Board of Cabinet that formally requires provincial and broader-public-sector entities to prepare these annual reports.

To assist in overseeing the governance of provincial agencies, the Management Board of Cabinet issues the Agencies and Appointments Directive. Under the *Broader Public Sector Accountability Act*, the Management Board of Cabinet also has the authority to issue specific directives for designated BPS organizations and has issued the Broader Public Sector Business Documents Directive.

Advisory agencies that provide information and/or advice to assist in the development of programs are not required to publish an annual report given their limited power and authority and lower risk profile. Approximately 125 provincial agencies are required to produce an annual report. Over

270 broader-public-sector organizations are also required to produce business and financial information, which may be included in their annual reports or other documents.

2.5 What Is Contained in an Annual Report?

There are a number of sources that assist provincial entities in determining what to include in their annual reports. The Public Sector Accounting Board (PSAB) has issued a Statement of Recommended Practice (SORP) with respect to matters of reporting supplementary information beyond that presented in the financial statements. SORP is not part of the CPA Canada Public Sector Accounting Handbook but does provide general guidance to organizations that include supplementary information in their annual reports. SORP represents reporting practices that are encouraged but not mandatory. Instead, SORP is intended to provide preparers of such information with a common framework for developing a consistent approach to reporting supplementary information. Therefore, these practices can guide all entities when preparing their annual reports.

For provincial agencies and broader-public-sector organizations, Management Board of Cabinet issued directives that specify annual reporting requirements. The Agencies and Appointments Directive (most recently updated April 2017) and the Broader Public Sector Business Documents Directive (effective January 1, 2016) establish the annual report content requirements for provincial agencies and broader-public-sector organizations, respectively.

The suggested content and requirements for the annual reports are noted in **Sections 2.5.1**, **2.5.2** and **2.5.3**. As well, a comparison of SORP and the two Directives is included in **Figure 6**.

2.5.1 Statement of Recommended Practice—Public Performance Reporting (SORP)

The September 2006 Statement of Recommended Practice (SORP) notes that performance is a broad, complex topic with both short- and long-term aspects. The main purpose of an annual report is to explain in a clear and concise manner the extent to which intended goals and objectives were achieved, and at what costs. While what resources were being used and how they were being used continue to be important, there has been an increased focus on what is actually being achieved with the resources consumed, in relation to what was planned. As a result, SORP was directed at addressing non-financial performance information in annual reports, as well as the linkage of financial and non-financial performance information.

To help guide preparers of annual reports in presenting clear and concise information, SORP lists qualitative characteristics of performance information. An annual report should communicate information that is credible and that embodies the characteristics of reliability, validity, relevance, fairness, comparability, consistency and understandability.

In addition to the qualitative characteristics of an annual report, SORP includes recommendations aimed at improving the quality of public performance. Selected SORP recommendations are included in **Figure 6**.

Users of annual reports should not have to consult other documents to understand reported performance. Sufficient detail should be provided so that the analyses and explanations provided are meaningful. The report may include an executive summary and, for readers who need more details, provide reference to companion documents or website links where more detailed information and analysis regarding specific aspects of performance can be accessed.

Figure 6: Comparison of Selected PSAB Recommended Practices for Preparing an Annual Report, Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive

Prepared by the Office of the Auditor General of Ontario

PSAB Statement of Recommended Practice #2	Agencies and Appointments Directive	Broader Public Sector Business Documents Directive
Deciding what to report		
A public performance report should focus on the few critical aspects of performance.	Description of activities over the year.	Description of key activities over the previous fiscal year.
Reporting and explaining results		
The public performance report should describe the strategic direction of the public sector entity.	Discussion of performance target achieved and of action to be taken when not achieved.	Discussion of performance target achieved and of action to be taken if not achieved.
The public performance report should describe the planned results for the reporting period and identify the source of the commitments.	Analysis of operational and financial performance.	Analysis of operational performance.
The public performance report should describe actual results and compare them with planned results, explaining any significant variances.	Names of appointees, including date when first appointed and when the current term of appointment expires.	Audited financial statements.
The public performance report should provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided.	Audited financial statements or, where an audit is not practical, financial statements subject to another appropriate level of external assurance with actual results, variances, and explanations of the variances against estimates.	
The public performance report should identify significant lessons learned during the reporting period and the implications arising from them.		
Reporting on key factors that influence performance and results		
The public performance report should include information about key factors critical to understanding performance, including:	Analysis of operational and financial performance.	A discussion of performance targets achieved and actions to be taken if not achieved.
a) identifying significant risks, capacity considerations and other factors that have had an impact on performance and results; and		Analysis of operational performance.
b) explaining the nature of this impact.		
Linking financial and non-financial information		
The public performance report should link financial and non-financial information to show how resources and strategies influence results.		

Guide to Preparing Public Performance Reports

Public Sector Accounting Board staff developed a guide to preparing public performance reports (commonly referred to as annual reports) that is available to entities to support their public performance reporting efforts. The guide provides a framework for preparing the annual report as it identifies report features and/or missing information that could influence a user's perception of the report's credibility and usefulness. Selected recommended practices and examples of features that suggest the recommended practice is being applied are included in **Appendix 1**.

2.5.2 Agencies and Appointments Directive for Provincial Agencies

The Agencies and Appointments Directive (formerly named the Agency Establishment and Accountability Directive) stipulates what must be included in a provincial agency's annual report. **Figure 6** shows the annual reporting requirements for board-governed provincial agencies.

Annual reporting requirements for board-governed agencies have been in effect for many years, with the exception of the requirement to communicate achievements in fulfilling expectations set out in the applicable agency mandate letter. This requirement came into effect in July 2016 and therefore would be reflected in an agency's 2016/17 annual report if a mandate letter was issued. (An agency mandate letter is an annual correspondence from the minister responsible for a board-governed agency to the agency's chair outlining the minister's broad expectations with respect to service and performance priorities for the coming fiscal year.) Because this is a relatively new process that began in 2016, not all such agencies currently receive mandate letters.

Guide to Developing Annual Reports for Provincial Agencies

The Treasury Board Secretariat published a guide in June 2016 on developing annual reports for provincial agencies as required by the Agencies and Appointments Directive. **Appendix 2** outlines the purpose and suggested content for each of the mandatory requirements for the annual reports of board-governed provincial agencies.

2.5.3 Broader Public Sector Business Documents Directive for Broader-Public-Sector Organizations

Under the authority of the *Broader Public Sector Accountability Act*, Management Board of Cabinet issued a Directive that sets out the requirement for certain broader-public-sector organizations (specified in the legislation) to prepare and publish online business plans and other business or financial documents containing specified information. This Directive became effective January 1, 2016.

Some broader-public-sector organizations may already include the required business information in documents with different titles, for example, business plans, strategic plans and accountability agreements. In these cases, the Directive specifies that it is not necessary to rename or create new documents as long as the information required is available to the public. To assist the public, the Directive requires that all documents and information required under the Directive must be available on the same webpage on the organization's website. As a result, organizations may create a webpage that directs visitors to the mandatory accountability information required under the Directive.

Broader-public-sector organizations must post business or financial documents on their websites. Business plans must contain at a minimum the following information:

- an organization's mandate and strategic direction;
- an overview of current and future programs and key activities; and
- performance measures and targets.

As well, broader-public-sector organizations must post additional business or financial documents that contain at a minimum:

- a description of key activities of the organization over the previous fiscal year;
- an analysis of operational performance;
- a discussion of performance targets achieved and actions to be taken if not achieved; and
- audited financial statements.

An organization's annual report may be used to satisfy this requirement if it contains this information.

3.0 What We Looked At

The objective of our review was to assess whether selected provincial agencies and broader-public-sector organizations publicly report the extent to which they achieved their intended goals and objectives and at what cost as recommended by the Public Sector Accounting Board Statement of Recommended Practice (SORP) #2 (Public Performance Reporting Statement). Our review also assessed whether the selected provincial agencies' and broader-public-sector organizations' annual reports included the applicable requirements as established by Management Board of Cabinet's Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive, respectively.

Because the requirement to communicate achievements in fulfilling expectations set out in the applicable agency mandate letter only took effect in July 2016, we did not include this requirement in our review of the 2015/2016 annual reports.

Our objective and review criteria are included in **Appendix 3**.

The objective and scope of our review were discussed with and agreed to by senior management at the Treasury Board Secretariat.

A consolidated entity is a large government-controlled agency or organization with revenues, expenses, assets or liabilities over $50 million, or with outside sources of revenue, deficit or surplus over $10 million. The financial results of these entities' operations form part of the Province's consolidated financial statements. Therefore, we focused on these entities when examining annual reports. As well, given the important services delivered by universities, we also reviewed their annual reports. A full listing of provincial agencies can be found at **www. ontario.ca/data/provincial-ministries-and-agencies**. A listing of consolidated broader-public-sector organizations and Crown-controlled corporations, like Ontario Power Generation, can be found at **www.ontario.ca/page/public-accounts-2016-17-consolidated-financial-statements#section-2**. The listing does not include non-controlled and smaller broader-public-sector organizations that are not consolidated, such as long-term-care homes and community mental health organizations.

In addition to reviewing select annual reports of provincial agencies and broader-public-sector organizations, we also reviewed the Province of Ontario's 2015/2016 Annual Report on the Public Accounts of Ontario to see how well they followed SORP. We report on our findings in **Section 4.1.4** but do not include those findings in the statistics we present throughout this report.

Our work was conducted in August and September 2017. Therefore, we examined the 2015/16 annual reports of 15 provincial agencies and 14 broader-public-sector organizations and one other entity for a total of 30 entities. As well, the Province's 2015/2016 annual report on the Public Accounts of Ontario was separately reviewed. **Appendix 4** contains a list of the 2015/16 annual reports we reviewed. We obtained written representation from the Treasury Board Secretariat that, effective November 16, 2017, it has provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

In planning our audit, we reviewed relevant reports completed by the Ontario Internal Audit Division. In April 2016, Ontario Internal Audit reported on its review of business plans and annual reports. Annual reports for 2013/14 were examined during this review to determine if they complied with key Agencies and Appointments Directive requirements. This work was considered in determining the scope of our audit.

4.0 Key Observations and Recommendations

4.1 Statement of Recommended Practice (SORP) Encourages Annual Reports to Include Information beyond Directive Requirements

The Public Sector Accounting Board's (PSAB) Statement of Recommended Practice (SORP) encourages public-sector entities to provide useful information that goes beyond the information their directives require them to include in their annual reports. **Figure 6** shows the additional details SORP encourages against the required information of the two directives—the Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive.

The three types of information that the directives do not include but that SORP encourages annual reports to include are as follows:

- Provincial agencies and broader-public-sector organizations are required by directive to include performance measures and targets in their annual reports. SORP encourages those measures and targets to be "outcome"-based rather than just "output"-based. That is, the measures should not be limited to actions, services or products the entity undertakes (outputs) but should also measure the benefits or positive outcomes that result from those outputs. **Section 4.1.1** expands on this recommended information to include in annual reports.
- Provincial agencies and broader-public-sector organizations are required by directive to include an analysis of their performance in their annual reports or other information they make publicly available (provincial agencies must analyze both their financial and operational performance; broader-public-sector organizations are required to analyze just their operational performance). SORP encourages that analysis to include the significant risks and other factors that affected performance, and explain what that effect was. **Section 4.1.2** expands on this recommended information to include in annual reports.
- SORP encourages annual reports to inform readers of the costs of the performance results achieved, thus linking financial and non-financial performance information. **Section 4.1.3** expands on this recommended information to include in annual reports.

Section 4.1.4 outlines other gaps we noted in the reporting requirements for public-sector entities.

4.1.1 Outcome-Based Performance Measures Provide More Useful Information Than Output-Based Performance Measures

Output-based performance measures inform the Legislature and the public on the activity of an entity. Outputs are the direct products and services produced by the activities of the entity. However, these measures do not report on whether this activity resulted in positive or negative outcomes. Outcomes are the consequences of those outputs that can be plausibly attributed to them. It is helpful to think of the outputs as the "what" and the outcomes as the "consequence, benefit or value added." SORP includes the following example of output and outcome measures with respect to road safety:

Output: Posting of road signs indicating dangerous zones.

Outcome: Reduction in the number of accidents on highways resulting in a safer highway system.

SORP suggests the following when it comes to the reporting of performance measures:

- "The public performance report should describe the planned results for the reporting period …"
- "… Planned results would be stated in terms of outputs and outcomes …"

Output-based reporting can provide information that is useful to the public. However, in most cases, additional information is needed to inform the reader what the entity actually achieved or the benefits of the products or services delivered.

Outcome-based measures can be difficult to report as they require the entity to determine what it wants to achieve, quantify the measure, link the outcome to the output and track the progress over time. Meaningful outcome-based measures and reporting on them give the reader of an annual report a better sense of the benefits and value added by the agency or broader-public-sector organization.

4.1.2 Risk Analysis Provides Valuable Information to Readers of Annual Reports

SORP suggests that annual reports should include information about key factors critical to understanding performance, including:

- identifying significant risks, capacity considerations and other factors that have had an impact on performance and results; and
- explaining the nature of this impact.

Without a thorough discussion of risks, the Legislature and the public cannot assess what challenges the entity is facing, the impact of those risks on performance and possible mitigating strategies.

The Agencies and Appointments Directive requires that risks and related risk-management plans be included in business plans for provincial agencies. However, it does not require any risk information for annual reports. It also does not require that the business plans discuss how those risks affect performance.

4.1.3 Reporting the Costs of Results Achieved Would Improve the Usefulness of Annual Report Information

Reporting the costs of results achieved meaningfully links financial and non-financial performance information. This enables the Legislature and the public to assess how an entity used its resources during the year to achieve the outputs and outcomes it is reporting.

SORP suggests the following in this regard:

- "The public performance report should link financial and non-financial information to show how resources and strategies influence results."
- "It is important to link financial and non-financial performance information to demonstrate to users how entrusted resources were applied during the period and what was achieved as a result."
- "A balance exists between meeting public needs and keeping the resources used at a reasonable level, since high-quality effective services must be provided with due regard to costs."

RECOMMENDATION 1

To improve the quality of the annual reports of provincial agencies and broader-public-sector organizations, we recommend that Treasury Board Secretariat propose to Treasury Board/Management Board of Cabinet that the Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive be amended to include the following requirements for annual reports:

- base performance measures and targets on outcomes to be achieved (that is, in terms of improved consequences) rather than solely on outputs;
- identify significant risks and other factors that have impacted performance and results, explain the impacts, and report on plans to mitigate the risks; and
- report on the costs of results achieved.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction

on the content of performance reports, focusing on annual reports, including outcome and output performance measures, significant risks and the costs associated with achieving results. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education; and the Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

4.1.4 Other Gaps in the Reporting Requirements of Public-Sector Entities

Gaps in the Broader Public Sector Business Documents Directive

The Broader Public Sector Business Documents Directive has fewer requirements than the Agencies and Appointments Directive. Specifically, broader-public-sector organizations are not required to analyze the organizations' financial performance in the information available to the public (including discussing variances between their actual financial results against estimates).

As well, the information required by the Broader Public Sector Business Documents Directive does not have to be in an organization's annual report—it just has to be publicly available and on the same webpage on the organization's website. That means the information could be divided up in more than one place—some of it might be on a webpage showing the organization's business plan and some might be in an annual report. SORP specifies that the full range of information it encourages be reported be contained in an annual report (which it calls a "public performance report"). Having a "one-stop shop" in the form of an annual report with all of an organization's financial and operational performance information would be more helpful and useful for stakeholders, Members of Provincial Parliament that hold the organization accountable on behalf of taxpayers and the general public.

RECOMMENDATION 2

To improve the quality of the annual reports of broader-public-sector organizations, we recommend that Treasury Board Secretariat propose to Treasury Board/Management Board of Cabinet that the Broader Public Sector Business Documents Directive be amended to require that these organizations:

- analyze their financial performance in their annual reports, including discussing variances between their actual financial results against estimates; and
- include all other performance information in the annual report rather than allowing the information to be either in an annual report or on a webpage showing the organization's business plan.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of an analysis of financial performance and variances, and the approach to providing access to the public. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. In addition, this may include reviewing formats and channels through which information is dispensed to ensure they reflect modern communication approaches. The Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

Public-Sector Entities outside the Scope of Directives

We also noted that some public-sector entities fall outside the scope of both the Agencies and

Appointments Directive and the Broader Public Sector Business Documents Directive. Ontario Power Generation is an example. In the absence of a directive mandating what its annual report must contain, it has the option of following the guidance available for public-sector organizations but is not required to. Similarly, the Province of Ontario, in preparing its annual report of the Public Accounts of the Province, is not mandated to include specified information.

We noted that, although Ontario Power Generation (OPG) falls outside the scope of both directives, its annual report did include performance measures but not the applicable targets. OPG's audited financial statements were included along with a financial discussion, including variance analysis. The annual report included a discussion on risks and included linkages of financial and non-financial data.

In **Chapter 2, Public Accounts of the Province** of our *2015 Annual Report*, we identified ways in which the Financial Statement Discussion & Analysis (FSD&A) in the Province's annual report could be improved. We observed that applying SORP guidance in the following ways would further support transparency and accountability. For example,

- include a more robust variance analysis that extends to the previous year's actual results; and
- expand on the analysis of material risks and uncertainties.

Overall, the Province's 2015/16 Annual Report has improved and now includes a discussion and analysis of financial performance, including a detailed explanation of variances (both current year to prior year and current year to budget; and a five-year trend analysis of revenues, expenses, assets, liabilities and key financial ratios (sustainability, flexibility and vulnerability). However, it lacks discussion of the Province's performance measures and performance targets. We would expect such a discussion in, for example, the section on "Non-Financial Activities" within the annual report of the Province. While this section describes the government's achievements in major sectors such as health care, education, post-secondary education and training, and the condition of provincial tangible capital assets, there is no discussion of how the Province of Ontario measures its performance, what its targets are and how the 2015/16 actual results measured up against the targets. Without this additional information, the reader has little idea if the stated achievements were relevant to the Province's goals or any outcomes it may have set to meet.

RECOMMENDATION 3

To ensure that the annual reports of public-sector entities that fall outside the scope of existing directives contain useful and thorough information, we recommend that Treasury Board Secretariat propose to Treasury Board/Management Board of Cabinet that authoritative direction be provided regarding the information they must contain.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of entities that fall outside the scope of existing corporate direction. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. The Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

4.2 Annual Reports Do Not Always Identify How the Entity's Performance Was Measured and the Performance Targets to Be Achieved

Performance measurement is the process of collecting and analyzing information that indicates how well an entity is performing. SORP defines a performance measure as a metric used to directly or indirectly measure a particular aspect of performance, which can include measures of input, output and outcome. To be meaningful, performance measures must be specific, measurable, achievable, results-oriented and time-focused.

Performance should be measured against pre-established goals, or "targets." Without disclosure or clear identification of the entity's established performance measures, and applicable targets in the annual report, the Legislature and the public cannot assess what progress management has made in achieving its stated goals. The Legislature and the public also cannot determine where performance fell short of the stated target.

4.2.1 Requirements and Results for Provincial Agencies

The Agencies and Appointments Directive requires that performance measures and targets over three years be included in agencies' business plans, while in the annual report the agencies must report on the performance targets achieved and the actions to be taken when not achieved. The *Agencies and Appointments Directive Guide to Developing Annual Reports for Provincial Agencies* provides some additional information on what agencies are to report specifically for performance measures. Agencies are to provide to the minister a description of how the agency performed against targets set out in the business plan. They are also to provide actual performance targets in their annual reports so that the minister and the public can assess targets laid out in their business plans against what they actually achieved.

Overall, we noted that four of the 15 provincial agency annual reports we reviewed (27%) did not clearly identify the performance measures of the agency, and four did not disclose or identify the performance target (see **Figure 1**).

4.2.2 Requirements and Results for Broader-Public-Sector and Other Organizations

The Broader Public Sector Business Documents Directive also requires business plans or other financial documents to discuss performance targets achieved and the actions to be taken when not achieved.

Overall, we noted that five of the 12 broader-public-sector organization annual reports we reviewed (43%) did not clearly identify the performance measures of the organization, and seven did not disclose or identify the performance target (see **Figure 2**).

The Directive requires that this discussion be publicly available, but not necessarily in the annual report (it could be elsewhere on the organization's website or in another document, such as a performance indicator report). As a result, only six included them in their annual reports. Performance targets were publicly available for nine of the 14 organizations we sampled (64%), but only five included them in their annual reports.

Ontario Power Generation, which falls outside the scope of both directives, identified its performance measures but did not disclose any performance targets in its annual report.

4.2.3 Further Analysis

When assessing the selected annual reports for incorporation of SORP guidance, we looked for the following:

- clear performance measures;
- applicable quantifiable target for each performance measure; and
- result or outcome reported.

Performance Measures Not Clearly Identifiable

The annual reports we reviewed generally listed key achievements and activities undertaken during the year. However, it was not clear if these activities were tied to specific performance measures. Some examples include:

- The Education Quality and Accountability Office's (EQAO's) 2015/16 annual report listed four strategic priorities but did not clearly identify the performance measures and targets for these priorities. We did note that its 2016–19 business plan clearly outlined the goals, strategy, performance measures and targets for each priority. However, the performance measures and associated targets are not clearly presented in the annual report. For example, the annual report mentions the testing of online assessments, but it does not state the progress in relation to the target presented in the business plan because the performance measure and target are not identified in the annual report. If the performance measure is not clearly identified, the public cannot assess what measures the entity is using to determine the extent to which it has achieved its stated goals and objectives.
- Many of the universities' 2015/16 annual reports listed statistics such as overall enrolment, international enrolment and revenues. However, it was not clear if this information reflected the organizations' performance measures. The lack of clear measures in the universities' annual reports is likely because these organizations also have a separate agreement with the Ministry of Advanced Education and Skills Development to report on system-wide indicators in the education sector, such as graduate employment rates, percentage of graduates employed in a related field and student satisfaction rates. While this information is not included in the annual reports, it is publicly available through each university's website. Without the performance measures clearly defined in the annual report, the public cannot determine if the universities have met their intended goals and objectives.

No Performance Targets for Approximately Half the Annual Reports Sampled

In our sample, only 15 of the 28 annual reports (54%) disclosed or identified the performance target. Examples include:

- In TVO's 2015/16 annual report, Digital Learning was an area of focus for TVO. Homework Help, which is one component of Digital Learning, is a free online math-tutoring service available to Grade 7 to 10 students in every publicly funded English-language school board in the province. The annual report does include usage statistics, such as the number of questions asked of teachers via Homework Help. The public would assume that this statistic is how TVO measures its performance; however, without context, such as a target goal, the reader of the annual report would not know if the usage of this service met TVO's expectations.
- The Ontario Science Centre 2015/16 annual report includes many statistics, such as the number of visitors and number of students on school visits. A reader of the annual report would assume these are performance measures of the entity; however, without associated targets, it is uncertain if these results are positive or are in need of improvement.

As noted in **Sections 4.1.4** and **4.2.1**, there are some drawbacks to both directives allowing performance targets to be contained in business plans without a requirement to also include them in the annual report. While business plans look at future targets, the annual report is the vehicle by which to report on the current year's achievements of past targets. The Legislature and the public cannot assess the achievement against the targets if the performance measures and applicable targets are not clearly identified or disclosed in the annual report. As well, there should be sufficient discussion in the annual report so that Members of Provincial

Parliament and the public do not need to refer to the business plan—a separate document—to see what the performance measure and applicable target were in order to assess the progress of the entity in meeting its stated goals.

Discussion of Reported Outcomes

Of the 15 annual reports we sampled that reported performance targets (54% of the 28 reviewed), three (20%) did not include a discussion of the reported result or outcomes. The discussion is crucial for the entity to identify where it did not meet the target and the reason why the target was not achieved. It is also an opportunity for the entity to discuss possible strategies to address the shortfall as well.

For example, we noted that Cambrian College's annual report contained a table that outlined its achievement of 2015/16 goals and objectives. The measures were either completed or in progress. For those that were in progress, there was no discussion as to why the activity was not completed. For example, one activity that was in progress was the creation of an inventory of existing academic courses. This was to have been completed by March 31, 2016, but there was no discussion to inform the public what challenges Cambrian College had encountered preventing it from meeting its timeline.

We did note some examples where there was a detailed explanation of the agencies' performance results. For example:

- The Toronto Central Local Health Integration Network's (LHIN's) 2015/16 annual report includes a table showing its performance indicators with the measurable target and the 2015/16 outcome; as well, the 2014/15 result is provided to show the year-over-year change in the result. This table is followed by a discussion of the results and some of the LHIN's plans for addressing areas where the results did not meet the target.
- The Ontario Clean Water Agency's (OCWA's) 2016 annual report clearly outlines the performance measures, applicable targets and year-end results. The OCWA clearly links its overall goals with the strategy to achieve these goals, the performance target to measure the progress of each goal and the year-end result. For example, one of the OCWA's performance measures and related target was to increase revenue in 2016 by 6.1% over the 2015 forecast. The annual report noted that this target was not achieved as revenue only increased by 1.95% over 2015. The annual report addresses the challenges the OCWA faced in growing its revenue, such as aggressive competition and price reductions. Such detailed discussion clearly identifies to the public the reasons why the performance target was not achieved.

RECOMMENDATION 4

To enable Members of Provincial Parliament and the public to easily assess whether the entity met, exceeded or fell short of its stated targets, we recommend that the Treasury Board Secretariat, in conjunction with ministries, take action to help ensure that:

- entities clearly identify and disclose performance measures, and, as required by the directive, applicable performance targets and results in their annual reports; and
- when targets are not met, as required by the directive, the annual report include planned actions to achieve these targets in the future.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) has developed an enterprise-wide framework for evidence-based decision-making, and is engaged in building capacity for evidence-based, performance and outcome measurement, data analytics and evaluation. Employing this approach, the Secretariat will pursue

opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of identifying performance measures and targets along with an explanation of the planned actions should targets not be met. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. In addition, this may include reviewing formats and channels through which information is dispensed to ensure they reflect modern communication approaches.

4.3 Many Annual Reports Lack Reporting on Outcome-Based Measures

Our review of 30 entities' annual reports revealed that some entities reported output-based performance measures, while others reported outcome-based measures. As noted in **Section 4.1.1**, SORP outlines how outcome-based measures provide more valuable information to annual report readers than output-based measures. In **Recommendation 1**, we suggest that outcome-based measures should be incorporated into annual report directives.

4.3.1 Results for Provincial Agencies

Of the 11 of 15 provincial agency annual reports that contained clear performance measures, six (55%) contained strictly output-based measures while five (45%) included outcome-based measures.

Here are two examples of reporting on output measures, or the "what was done," but not the outcome or benefit provided:

- The Ontario Clean Water Agency's (OCWA's) performance measure and target stated that its process data management system was to be fully implemented by the second quarter of 2016. The OCWA reported that it had fully implemented its process data management system, but what is the outcome or benefit of that implementation? To indicate an outcome, the OCWA could have provided, for instance, statistics on reduced incidence of contaminants flowing into the Great Lakes as a result of technological improvements in its managed plants.
- Infrastructure Ontario reported how many major and real estate projects were on time and on budget. While the output-based measure is appropriate, an outcome-based measure, such as client satisfaction rates for each type of service performed, would provide enhanced information for the public.

An example of a provincial agency that included outcome measures or benefits attained from services provided is Agricorp. Agricorp reported on customer satisfaction, an outcome measure for its services. This measure also had applicable targets to show the Legislature and the public that the agency was meeting its goal.

4.3.2 Results for Broader-Public-Sector Organizations

Of the seven of 12 broader-public-sector organization annual reports that contained clear performance measures, one (14%) contained strictly output-based measures while six (86%) included outcome-based measures.

An example of a broader-public-sector organization that included outcome measures or benefits attained from services provided is Mohawk College. Mohawk College conducted a graduate and employment satisfaction survey to determine employment rates and whether graduates were working in their field of study. This outcome measure was also compared to a provincial benchmark. This provides valuable information to the Legislature and the public to assess the performance of the entity.

4.4 Financial and Variance Analysis Could Be Improved

Annual reports generally include an entity's audited financial statements. While these statements reflect the financial performance of the entity as a whole, they do not provide information on a program-by-program basis or highlight a particular activity undertaken by the entity. As well, many readers unfamiliar with financial statements may not be able to analyze the financial information on their own. Therefore, inclusion of some discussion and analysis of financial performance in relation to an entity's goals and objectives is critical to helping the public understand this aspect of performance.

4.4.1 Requirements, Suggested Expectations and Results for ProvincialAgencies

The Agencies and Appointments Directive for provincial agencies requires that the annual report include audited financial statements and an analysis of financial performance. The *Guide to Developing Annual Reports for Provincial Agencies* also suggests that the annual report contain an analysis of the agency's financial performance, including approved budget as set out in the business plan, year-end actual results and explanations of significant variances.

Inclusion of Audited Financial Statements

All provincial agencies' annual reports we sampled included their audited financial statements in their annual report as required by the Directive (see **Figure 1**).

Inclusion of Analysis of Financial Performance

However, providing only audited financial statements is not enough to be considered a "financial discussion." We noted that five of the 15 annual reports we examined (33%) did not contain an analysis of financial performance (see **Figure 1**). Rather, the audited financial statement was the only financial information included. Without the analysis, a reader of the annual report would not have sufficient information to determine if the agency's financial performance was in line with expectations.

Inclusion of Explanations of Significant Variances

While reasons for significant variances are to be included in provincial agencies' annual reports, the Agencies and Appointments Directive does not define what a significant variance is. As a result, agencies must determine what they believe is reasonable to include as significant variances. In examining our sample of annual reports, we felt that more than a 20% variance between current-year results and those of the prior year would be of interest to the public. For example, if expenses increased by 40%, the reader of the annual report might well wonder why that occurred.

Of the 15 provincial agency annual reports we sampled, nine (69%) did have a discussion of significant variances (see **Figure 1**). For example, the Algonquin Forestry Authority provided an in-depth variance analysis in its annual report noting that "operating revenues for the year were $25,759,397, which represents an increase of $3,719,218 or 17.3 % compared to 2014/15. Demand for our contractor produced forest products increased by 14.9% during the year and slightly higher stumpage and selling prices were achieved resulting in a 17.2% increase in product sales dollars."

The remaining four of the provincial agency annual reports we sampled (31%) did not have any discussion of significant variances. For example, we noted that the Agricultural Research Institute of Ontario's 2015/16 annual report included some significant variances, such as tangible capital assets increasing by approximately $22 million, or 38%, and research expenditures decreasing by $1.2 million, or 23%. However, these variances were not explained in the annual report. We noted that two of the 15 provincial agency annual reports in our sample did not have significant variance discussions because there were no significant variances.

Inclusion of Budget Data

Budget information is important as it provides the Legislature and the public with a baseline to compare the actual results against the budgeted plan. Budgets also provide useful information on how resources will be used to achieve goals and strategies over the next two to three years.

We noted that six of the provincial agency annual reports we sampled (40%) included the agencies' applicable financial budget. However, 13 (87%) of these agencies included their financial budgets in their business plans.

Only two of the 15 agencies we sampled did not include their budget in either their annual report or their business plan.

RECOMMENDATION 5

To provide readers of provincial agency annual reports with a thorough understanding of agencies' financial performance, we recommend that Treasury Board Secretariat propose to Treasury Board/ Management Board of Cabinet that:

- the Agencies and Appointments Directive be amended to include a definition of what a significant variance is; and
- in conjunction with ministries, it take action to help ensure that financial performance analysis, including explanations for significant variances, be included in all provincial agency annual reports.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of a consistent approach with respect to significant variances, and promoting effective financial analysis. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. The Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

4.4.2 Suggested Expectations and Results for Broader-Public-Sector and Other Organizations

The Broader Public Sector Business Documents Directive only mentions that audited financial statements be included on the organization's website but does not require any analysis of financial performance. As noted in **Section 4.1.4**, this is a gap in the directive that we suggest be filled by the implementation of **Recommendation 2**. This should be kept in mind as we review these organizations' annual reports for the quality of their financial information.

Inclusion of Audited Financial Statements

Although organizations are not required by the directive to include audited financial statements within an annual report, seven (or 54%) of the 13 broader-public-sector and other organization annual reports we sampled did include audited financial statements. This includes Ontario Power Generation, which is not bound by any directive requirements for its annual report.

We also noted that when audited financial statements were not included in broader-public-sector organizations' annual reports, they were available as a stand-alone report on the website, with the exception of one organization. (See **Figure 4**.)

For example, the University of Toronto has a stand-alone financial report that includes its audited financial statements and a financial discussion. Halton Healthcare also provides statements separate from its annual report.

As noted in **Section 4.1.4**, the implementation of **Recommendation 2** would improve the quality of the single place where there is enough information for a reader to understand the financial performance of the organization.

Inclusion of Analysis of Financial Performance

Even though not required by the directive, five of the 13 broader-public-sector and other organization annual reports we reviewed (38%) did nevertheless contain a financial analysis (see **Figure 2**). This includes Ontario Power Generation, which is not bound by any directive requirements for its annual report.

Inclusion of Explanations of Significant Variances

As would be expected in the absence of being required to do so, significant variances were not explained in six (60%) of the 10 annual reports we reviewed that had significant variances (see **Figure 2**). For example, in the 2015/16 Mohawk College annual report, we noted that investments increased by $12.6 million, or 20%, and accounts payable and accrued liabilities increased by $5.9 million, or 32%. In neither case was an explanation provided as to why there was such a significant change.

Four (40%) of the broader-public-sector and other organization annual reports reviewed that had significant financial variances did contain a discussion of key variances. For example, Brock University provided a thorough financial analysis in its 2015/2016 annual report. Its analysis included explanations of variances for revenues, expenses, assets, liabilities, net assets and other indicators. In addition, beside each indicator, the report provided a bar graph to highlight the change in the last three years for that indicator.

Similar to what we found for provincial agencies, we noted that two broader-public-sector organization annual reports in our sample did not have significant variance discussions because there were no significant variances. In one case, we were not able to determine if there was a variance because the information was not available to do so.

Inclusion of Budget Data

Since the directive does not require organizations to publish financial analysis, we did not expect that budgets would typically be included in the organization's annual report. Only one of the 12 organizations sampled had included its budget in its annual report. We also examined the applicable business and strategic plans to determine if budgets were included in these documents instead. Overall, six (46%) of the 13 broader-public-sector and other organizations we sampled had financial budget information in a document on their website, while seven (54%) did not. None of the hospitals, which comprise the majority of those organizations without publicly available financial budget information, had budget information on their websites.

4.5 Better Linkages between Financial and Non-Financial Data Would Improve Annual Reports

As noted in **Section 4.1.1**, SORP outlines how linkages between financial and non-financial data crucially include a discussion of *how resources were used* to achieve the desired outcome, enabling the reader to understand *the costs of achieved performance*. In **Recommendation 1**, we suggest that reporting on the link between cost and achievement should be a requirement in annual report directives.

In order to determine if this information encouraged by SORP was included in annual reports, we applied several criteria. Primarily, we looked for a discussion of how resources were used to achieve the desired outcome. We also assessed whether the entity established a link between its costs and the performance information included in the annual report. As well, we examined discussions of how non-financial resources (such as human resources) were involved in the achievement of performance.

In some cases, we noted that the annual reports contained thorough discussions of what the entity accomplished in the year, but financial information was limited to the inclusion of the audited financial statements. There was little to no discussion of the amount of financial resources actually used to achieve specific accomplishments.

4.5.1 Results for Provincial Agencies

Of the 15 provincial agency annual reports we reviewed, only four (27%) linked financial and non-financial information; the majority, 11 (73%), did not (see **Figure 1**).

For example:

- The 2015/16 annual report of the Education Quality and Accountability Office outlined many accomplishments during the year, including four separate pilot tests to assess the online delivery of the Ontario Secondary School Literacy Test. The cost of this accomplishment was not tied to what was achieved.
- The 2015/16 annual report of the Agricultural Research Institute of Ontario highlighted many activities during the year, most notably the commissioning and grand opening of a new dairy research facility and a new pre-commercial research greenhouse complex. The cost of these new facilities was not mentioned in the annual report.

While the audited financial statements for these entities are included in their annual reports, these statements cannot be used to determine the cost related to the accomplishments noted above.

4.5.2 Results for Broader-Public-Sector and Other Organizations

None of the broader-public-sector organizations sampled had full and complete linkages between financial and non-financial information (See **Figure 2**). The one other entity in our sample, Ontario Power Generation, did have linkages between financial and non-financial information.

4.6 Limited Discussion of Risks and the Impact on the Entity

As noted in **Section 4.1.1**, SORP outlines that reporting on significant risks and other factors, and their impact, is critical to for report readers to thoroughly understand an entity's performance. In **Recommendation 1**, we suggest that discussing risks and their impact should be a reporting requirement in annual report directives.

4.6.1 Requirements, Suggested Expectations and Results for Provincial Agencies

The Agencies and Appointments Directive requires that risks and related risk-management plans be included in business plans for provincial agencies. However, a discussion of how those risks affect performance is not required to be included in these plans. As a result, we expected that the annual reports would be the place where this discussion would be found (as it affected the performance of the current year). However, for the most part, we did not find this to be the case.

For the five of the 15 provincial agencies (33%) that included information in their annual reports on the risks the agency was facing (see **Figure 1**), we noted that the risks were clearly identified and there were explanations on how these risks were managed. For example, the Ontario Securities Commission included a list of risks it is facing, including strategic, system, business continuity, financial and legal risks. The Commission's annual report clearly discusses how it manages the various risks.

4.6.2 Results for Broader-Public-Sector and Other Organizations

The Broader Public Sector Business Documents Directive does not require that the annual report disclose risks affecting the organization, the impact on performance (if any) and related mitigating strategies.

As a result, only one of the 12 (8%) of broader-public-sector organizations annual reports in our sample contained a risk analysis. Ontario Power Generation's 2015/16 annual report also contained a risk analysis. (See **Figure 2**.) For example, we noted that Queen's University's 2015/16 annual report mentions in detail the financial risks the

university is facing: an unsustainable pension plan, deferred maintenance and its reliance on grant support and tuition revenue. The discussion of the pension plan includes some very specific mitigation strategies: "… in September 2015 all units began contributing an additional 4.5% in pension charges to cover the cost of additional going concern payments and the university has negotiated a commitment with employee groups to design and build a new Ontario University Jointly Sponsored Pension Plan."

While there were a few good examples of risk analysis, for the most part, this analysis was not included in any of the broader-public-sector organizations' financial or annual reports. A discussion of risk would round out their annual reports and provide insight on risks they are facing, the impacts and their plans to address the risks.

4.7 Annual Reports Are Written in Plain Language

All the annual reports we reviewed were clear, understandable and written in plain language.

SORP states that for performance information to be useful, it must be able to be understood by readers. Explanatory narratives should be precise and clearly stated in plain, non-technical language that focuses on critical facts and matters that enable readers to obtain reasonable insights or draw reasonable conclusions. Care should be taken to avoid oversimplifying or omitting relevant details.

For this recommended practice, we looked to see if the report was written in plain language (that is, it did not use technical language or jargon), was well organized with a good use of graphics and tables, and conveyed what the entity achieved in the year.

A good example of an understandable report is the 2015/16 LCBO annual report. The report was well organized and used graphics and tables throughout to support the written narrative. As well, Cambrian College's 2015/16 annual report used a table to highlight its accomplishments and concise narratives to discuss its operational and financial performance.

Annual reports that are clear and understandable make it easy for the Legislature and the public to assess the accomplishments of the entity and the steps the entity is taking to address performance and financial shortfalls, if any.

Appendix 1: PSAB Guide to Preparing Public Performance Reports—Selected Recommended Practices with Related Examples of Application

Source of data: Financial Reporting and Assurance Standards Canada

Recommended Practice	Examples of Features That Suggest This Recommended Practice Was Applied
Is the report understandable?	• The report is concise and written in plain language that a member of the public can readily understand. • The number of performance measures appears reasonable.
Does the report focus on the few critical aspects of performance?	• The report focuses on the entity's key strategies, goals and objectives. • Narratives and performance measures support a user's understanding of the entity's few critical aspects of performance.
Does the report describe the entity's strategic direction?	• The report summarizes information about the entity's high-level priorities and long-term goals so as to provide context for reported performance. • The report's description of the entity's goals and objectives helps the user understand how their accomplishment is consistent with the entity's strategic direction.
Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?	• The report identifies planned results for the reporting period, stated in terms of outputs and outcomes. • Explanations are provided for all significant variances and give the user reasonable insight into their cause(s).
Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?	• The report includes trend information that, at a minimum, presents current period actual results with actual results for at least the two previous periods. • Information is provided to allow users to assess plans, relate current achievements to long-term goals, and assess progress over time.
Does the report describe lessons learned and key factors influencing performance and results?	• Where there are risks that had a significant impact on performance, the report includes outlines of the steps needed to bring actual performance in line with planned results, and progress is evaluated in relation to those steps. • Where actions are required in the future to close the current period gap between actual and planned performance, the report describes specific steps and estimated time frames to do so.
Did the entity link its financial and non-financial performance information?	• The report includes narratives and performance measures that illustrate the entity understands how financial and non-financial resources contributed to actual results. • All entity costs are linked to individual performance measures, thereby permitting analysis of the level and type of resources required to produce outputs and (ideally) outcomes.

Appendix 2: Agencies and Appointments Directive's Annual Report Requirements and Suggested Content for Board-Governed Agencies

Source of data: Treasury Board Secretariat, June 2016

Requirement	Purpose	Suggested Content
Description of activities over the year.	To provide a report on activities during the year.	Provide a high-level description of key programs, activities and highlights over the year that fulfilled the agency's mandate and government priorities. Describe how the agency's activities aligned with its corresponding business plan for the year covered in the annual report. Identify any significant changes to the agency's programs and services, and the impacts of those changes.
Analysis of operational performance.	To provide a report on operational performance focusing on operational results.	Provide an analysis of the agency's operational performance. This should include how the agency performed against targets in the business plan and applicable industry standards (e.g., effectiveness, productivity)
Analysis of financial performance.	To provide a report on performance with a focus on financial results.	Provide an analysis of the agency's financial performance, including approved budget as set out in the business plan for the fiscal year of the annual report. Include actual year-end expenditures and explanations of significant variances.
Discussion of performance targets achieved and of action to be taken when not achieved.	To provide a report on whether targets were achieved and any corrective actions taken.	Measures of actual performance targets should be provided so the Minister and the public can compare business plan targets to achievements for the fiscal year of the annual report. Where business plan targets were not met, provide an explanation of the action(s) to be taken to meet the target(s) going forward. The agency's new, approved business plan is a useful reference for discussion of actions that are being taken to address targets not being met. Include explanations and descriptions for targets that were significantly exceeded.
Names of appointees, including date when first appointed and when the current term of appointment expires.	To provide information on appointees to the board of directors of the agency.	Identify all appointees, positions, dates first appointed and when the current term of appointment expires. Total amount of remuneration for all appointees combine.
Audited financial statements or, where an audit is not practical, financial statements subject to another appropriate level of external assurance with actual results, variances and explanations of the variances against estimates.	To provide financial statements.	Consult with ministry controllership for further specific details.
Any legislatively required content.	To address any legislatively required content set out for agency annual reports.	As stipulated in legislation.

Appendix 3: Review Objective and Criteria

Prepared by the Office of the Auditor General of Ontario

Objective

To assess whether the selected provincial agencies publicly report the extent to which they achieved their intended goals and objectives and at what cost as recommended by the PSAB Statement of Recommended Practice #2 (Public Performance Reporting Statement). Our review will also assess whether the selected provincial agencies' and broader-public-sector organizations' public performance reports included the applicable requirements as established by Management Board of Cabinet's Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive, respectively.

Criteria

1. PSAB Statement of Recommended Practice suggests that public-sector performance reports incorporate the following principles:
   - focus on the few critical aspects of performance;
   - describe the strategic direction of the public-sector entity;
   - describe actual results and compare them with planned results, explaining any significant variances;
   - provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided;
   - identify significant lessons learned during the reporting period and the implications arising from them;
   - include information about key factors critical to understanding performance, including:
     - identifying significant risks, capacity considerations and other factors that have had an impact on performance and results; and
     - explaining the nature of this impact; and
   - link financial and non-financial information to show how resources and strategies influence results.
2. The performance report must contain the following elements in order to comply with the Agencies and Appointments Directive for board-governed agencies:
   - description of activities over the year;
   - analysis of operational performance;
   - analysis of financial performance;
   - discussion of performance targets achieved and of action to be taken when not achieved;
   - names of appointees, including date when first appointed and when the current term of appointment expires; and
   - audited financial statements or, where an audit is not practical, financial statements subject to another appropriate level of external assurance with actual results, variances and explanations of the variances against estimates.
3. The performance report must contain the following elements in order to comply with the Broader Public Sector Business Documents Directive:
   - a description of key activities over the previous fiscal year of the organization;
   - an analysis of operational performance;
   - a discussion of performance targets achieved and actions to be taken if not achieved; and
   - audited financial statements.

Appendix 4: 2015/16 Annual Reports We Examined

Prepared by the Office of the Auditor General of Ontario

Ministry of Advanced Education and Skills Development
1. Brock University
2. Cambrian College
3. Georgian College
4. McMaster University
5. Mohawk College
6. Queens University
7. Seneca College
8. University of Toronto
Ministry of Agriculture, Food and Rural Affairs
9. AgriCorp
10. Agricultural Research Institute of Ontario
Ministry of Economic Development
11. Ontario Infrastructure and Lands Corporation
Ministry of Education
12. Education Quality and Accountability Office
13. Ontario Educational Communications Authority (TVO)
Ministry of Energy
14. Ontario Energy Board
15. Ontario Power Generation
Ministry of Environment and Climate Change
16. Ontario Clean Water Agency

Ministry of Finance
17. Liquor Control Board of Ontario
18. Ontario Lottery Gaming Corporation
19. Ontario Securities Commission
Ministry of Health and Long-Term Care
20. Halton Healthcare Services Group
21. Humber River Regional Hospital
22. Local Health Integration Network–Toronto Central
23. Muskoka Algonquin Healthcare
24. Norfolk General Hospital
25. St. Joseph's Health Centre–Toronto
26. Trillium Health Partners
Ministry of Natural Resources and Forestry
27. Algonquin Forestry Authority
Ministry of Northern Development and Mines
28. Northern Ontario Heritage Fund Corporation
Ministry of Tourism, Culture and Sport
29. Ontario Science Centre
Ministry of Transportation
30. Metrolinx

Chapter 5

Review of Government Advertising

Significant Changes to *Government Advertising Act, 2004* Lead to Government Advertising Up Sharply

The 2016/17 fiscal year was the first full year that the 2015 amendments to the *Government Advertising Act, 2004* (Act) were in effect. The amendments weakened our Office's authority to ensure that public money is not spent on advertising that gives the government a partisan advantage.

The original Act, which took effect in late 2005, required the government to submit most advertisements to the Auditor General for review to ensure they were not partisan. Only advertisements that passed this review could be put into market.

The original Act also provided standards to guide this work, and gave the Auditor General discretionary authority to determine what is partisan. Under this system, our Office approved the overwhelming majority of the thousands of advertisements submitted for review over a decade.

Significant amendments to the Act took effect on June 16, 2015. We cautioned at the time that these would weaken the Act and open the door to publicly funded partisan and self-congratulatory government advertisements on television and radio, in print and online.

Although my Office still must approve most government advertising before it can be used, the amendments did away with the Auditor General's discretionary authority to determine what is partisan. Instead, the amendments imposed a specific and narrow definition of "partisan" as the only measure we can use in our reviews.

In 2016/17, the government spent more than $58 million on advertising—the most since the 2006/07 fiscal year. A sizeable proportion—just over 30%—was for advertisements we believe had as their primary goal to foster a positive impression of the government party. Although we were required to approve these ads as compliant under the amended Act, we noted that they would not have passed our review under the original Act—and therefore would not have been broadcast or printed.

We have made clear since 2015 that our preference would be to restore the original Act. A private member's bill to this effect received first reading in the Legislature on March 27, 2017. The bill's explanatory note said it aimed to amend the Act "so that the Act reads as it did prior to the 2015 amendments." However, the bill was defeated in second reading three days later.

Approval from the Auditor General is still required under the amended Act before an advertisement can run. However, this approval is almost always automatic because the amended Act stipulates that an ad may be deemed partisan only if:

- "it includes the name, voice or image of a member of the Executive Council or a member of the Assembly, unless the item's primary target audience is located outside of Ontario;

- "it includes the name or logo of a recognized [political] party …;
- "it directly identifies and criticizes a recognized party or a member of the Assembly; or
- "it includes, to a significant degree, a colour associated with the government party …"

The above requirements essentially mean that as long as the government avoids using the name or image of an elected official or political party in an advertisement, the Auditor General cannot find the ad partisan under the Act.

The original Act also stipulated each item submitted to our Office had to be a reasonable means of:

- informing people about government programs, policies and services;
- informing people about their rights and responsibilities;
- changing social behaviour in the public interest; or
- promoting Ontario as a good place in which to live, work, invest, study or visit.

However, the 2015 amendments repealed those standards, which means advertisements can be found in compliance with the Act even if they do not inform. We found the original Act helped promote transparency and accountability in government advertising, and ensured that items provided useful information without promoting the government party or criticizing its opponents.

Since the amendments, however, our Office has had to approve millions of dollars in advertising that we believe had as its primary purpose to promote the government's partisan political interests or give the government credit for its accomplishments, rather than to inform citizens. We present examples below.

Budget Ads Target Opposition Ridings

The government submitted a $330,000 radio campaign for review in May 2017 to promote the new provincial budget. We noted that the items used vague feel-good statements such as "we're building a stronger, healthier Ontario" and "it's a balanced budget for all of us."

In addition, the advertisements referred to four Ontario communities that were all in opposition-held ridings. As they came barely a year before the provincial election scheduled for June 2018, these ads could leave the impression that these communities were specifically targeted for government-friendly advertising.

Under the previous Act, we would have rejected these advertisements as partisan, meaning they could not run. However, these ads were in compliance with the amended Act and we had to approve them.

Hydro Rate Ads Misleading

The Ministry of Energy (Ministry) spent just over $1 million in 2016/17, and planned in the first half of 2017/18 to spend another $2.9 million, on campaigns to promote the government's plan to cut Ontario Hydro rates by 25% starting in summer 2017.

Under the amended Act, we were required to approve all the items as compliant, although we had several concerns about some of the claims they made, and their self-promotional tone.

The first campaign, at a cost of just over $1 million, was for radio advertisements that went to market in March 2017, a couple of months before enabling legislation for the rate cut was passed in the Legislature. We found these items to be misleading in suggesting that investments in "clean, reliable energy" were the only factors that led to Hydro bills that "have become harder to pay."

Finally, the phrases "we've heard you" and "fair for everyone" led us to conclude that the campaign was self-congratulatory and aimed primarily at ensuring the government gets credit for its action on energy prices.

In the 2017/18 fiscal year, the Ministry sought approval for television, additional radio and digital advertisements that it estimated would cost

$2.9 million to further promote the Fair Hydro Plan, using messaging consistent with the previous year. Under the amended Act, we were required to approve these items, too.

Government Advertising that Could be Perceived as Political

The Ministry of Education (Ministry) submitted an advertising campaign in October 2017 regarding the creation of more licensed child-care spaces over the next five years. The Ministry estimated this campaign would cost $1.9 million. The television ads tell viewers that: "Over the next five years, we'll help double the amount of licensed child care for kids, aged 0 to 4." It is not until the 30-second ads draw to a close that it is possible to determine who in fact paid for the ad. We told the Ministry that besides not providing any useful information and fostering a positive impression of the government, these ads could be perceived as political in light of the election scheduled in June 2018.

Climate Change Campaigns Contained Little Information

The Ministry of the Environment and Climate Change (Ministry) submitted two major climate change campaigns during 2016/17 that cost a total of more than $5.6 million. We approved both of them as compliant with the amended Act, but we had concerns about them.

The first campaign, entitled "Let Them Figure It Out," included a total of 17 submissions whose theme was that children would inherit the consequences of climate change in the future unless adults act now.

We approved these ads as compliant under the revised Act, but advised the Ministry that the items did not provide viewers with any useful information and appeared designed to "create apprehension about the effects of climate change so viewers will be more likely to support Ontario's Climate Change Action Plan."

The second major climate-change campaign, entitled "Save the Everything," comprised five submissions. We approved all of them as compliant under the revised Act, three of them without issue.

However, the other two submissions, including one containing digital advertisements calling on Ontarians to "save the recess breaks" and "save the road trips" by taking action on climate change, did not provide viewers with any useful information. We also noted that "the claims appear overstated," and we concluded that a primary objective of the advertisements was "to foster a positive impression of the government."

Education Ads Tout Program That Was Unavailable

Two sets of advertisements aimed at post-secondary students and their parents during 2016/17 also raised concerns, although we had to approve them as being compliant with the amended Act.

The first, a digital campaign, to promote the Ontario Student Grant, ran a full year before students could actually apply for the grant. We advised the government that we found the campaign misleading and we concluded that a primary objective of the advertisements was to foster a positive impression of the governing party. This campaign would not have passed our review under the old Act.

The second item, a preliminary submission for a cinema advertisement, touted the merits of the Ontario Student Assistance Plan (OSAP). However, we found the advertisement misleading because it did not mention that one must apply and be considered eligible in order to receive assistance. This issue was addressed in the final version, which we found to be in compliance with the amended Act. Subsequent advertising on OSAP passed our review without reservation.

Advertising Cited Last Year Still Running This Year

Three campaigns that we had to approve as compliant with the legislation in 2015/16 were still in market during 2016/17. Although complete information about costs was unavailable in the previous year, the totals came into clearer focus in 2016/17 and are given below. All three campaigns appeared designed primarily to give the government credit for its accomplishments, and we describe them below:

- **A campaign to promote "Ontario's nearly $160-billion investment in infrastructure."** In having to approve this $2.95-million television and digital campaign as compliant with the Act, we advised the government that none of the items mentioned the fact that this spending will be spread over the next 12 years—a period when three provincial elections and any number of other unanticipated economic developments could alter the spending plan. We also observed that information in the government's own submission for the campaign cited polling showing fewer than 50% of Ontarians know about the government's investment in public infrastructure. This led us to conclude that the overall thrust of these advertisements was self-congratulatory and aimed at ensuring that the government gets credit for its potential future spending plans.
- **Two campaigns to tell Ontarians that the government is increasing health-care funding by $1 billion in the current fiscal year and that health care is improving.** In its submissions for these television, print, radio and digital advertisements, with a total combined budget of nearly $5.2 million, the government cited "survey results showing that many Ontarians believe that severe cuts are happening within the health-care system." In reviewing and having to approve these ads as compliant with the legislation, we noted that the campaigns appeared to be self-congratulatory and aimed at ensuring that the government gets credit for its planned health-care spending. We also advised the government that these ads would not have passed under the previous Act because we would have determined that a primary objective of the items was to foster a positive impression of the governing party, rather than provide the public with useful information.
- **A campaign (Education Life Cycle) saying that "when Ontario students realize their full potential today, they're ready to take on tomorrow."** We advised the government that this $2.88-million television and digital campaign would not have passed under the previous Act because we felt the general thrust of this feel-good campaign is to foster a positive impression of the government. These advertisements continue to run in the current fiscal year (2017/18) at an estimated additional cost of $1.06 million.

Other Issues

Government Advertising Before and During Elections

The amended Act included new restrictions on government advertising during election periods. The government now cannot advertise as of the day when an election writ is issued (or as of the day 60 days before an election writ is issued, in the case of a fixed-date election), and ending on polling day. However, these rules do not apply if the government determines that the advertising relates to a revenue-generating activity, is time sensitive, or meets any other criteria that they may prescribe. As well, government offices must "cease" any ongoing advertising that began before the writ was issued, unless it is not practical do so.

Over the last three general election periods (2007, 2011 and 2014), using our former discretionary power, we approved government advertising to run that we deemed as non-partisan. While it had been a long-standing practice of the government to

limit its advertising only to those items dealing with urgent matters or revenue-generating activities, our Office still provided a vital safeguard to ensure that the governing party received no perceived partisan benefit from government advertising during this time. Examples of past campaigns we approved to run during election periods included Ontario Savings Bonds, Foodland Ontario and advertising directed at international audiences.

New election finance reform legislation that passed in December 2016 banned corporate and union donations to political parties, set maximums for individual contributions, and instituted rules regarding fundraising. It also imposed restrictions and rules on advertising by political parties, third parties, and the government itself.

New spending limits were imposed on advertising by political parties and third parties in the six months before a scheduled election. Political parties are limited to spending no more than $1 million and third parties are limited to $600,000 during this time. The *Election Finances Statute Law Amendment Act, 2016* also affected the *Government Advertising Act, 2004* by placing limits on when the government can advertise prior to a scheduled election period. No spending limits were placed on government advertising.

As a result, government advertising is now prohibited in the 60 days *before* the writ is issued unless, as during the campaign period, the advertising relates to a revenue-generating activity, is time sensitive, or meets any other criteria that may be prescribed. It is the government that will determine which advertisements can run during this pre-election period.

Although Ontario Government advertising still must be submitted to our Office, we are restricted by the narrow definition of partisanship in the revised Act and unable to use any other criteria to determine whether an item could give a partisan advantage to the government.

During second reading of the *Election Finances Statute Law Amendment Act, 2016* in November 2016, I submitted a written presentation to the Standing Committee on General Government expressing these concerns. We also noted that the legislation deals only with general elections and not by-elections. Thus, there are no restrictions on government advertising during a by-election period.

With next year's June 7 general election approaching, we expect the government to cease most advertising on March 10, 2018.

Digital Advertising Loopholes

The authority to review digital advertising was not in the original *Government Advertising Act*, and we had been asking for this authority since 2011. A new regulation under the 2015 amendments gave us the authority to review "an advertisement consisting of video, text, images or any combination of these that a government proposes to pay to have displayed on a website."

However, this regulation specifically exempts two key areas from our review: advertisements on social media websites, such as Facebook, Twitter and Instagram, and advertisements displayed on a website by search-marketing services, such as Google AdWords.

In the fiscal year ending March 31, 2017, the government spent $4.67 million on digital advertisements that were exempt from our review and our Office still lacks the authority to verify that all digital spending is for non-partisan purposes.

We take the view that this loophole should be closed, although the addition of some digital advertising to our review authority has not been meaningful in light of the legislated limits on our ability to determine what constitutes a partisan advertisement.

Limitation in the Act Regarding Mail

On April 19, 2017, we received a letter from an MPP inquiring about an insert included with electricity bills from local power-distribution utilities sent to thousands of Ontario ratepayers. The insert's headline read: "On January 1, 2017, your electricity costs went down 8%."

Under both the original and amended Acts, all printed materials sent unaddressed by mail or any other bulk distribution method to Ontario residents must first be submitted for review. However, any material sent in addressed mail—like the electricity bill insert—is not subject to review. The insert, which the government directed the utilities to include with bills, was therefore not submitted to our Office for review.

Although the message in this particular insert would likely have passed our review, it recalled an issue in 2011, when the government included an insert about its Ontario Clean Energy Benefit—a five-year, 10% rebate on electricity rates—in bills that arrived a month before that year's provincial elections.

We wrote in our *2011 Annual Report* that this showed a "possible limitation" of the Act, and could be seen as "violating the intent of the Act." This latest incident suggests, again, that the Act continues to overlook a potential loophole that could be used to send partisan messages directly to Ontarians through addressed mail.

Government Advertising Spending on the Rise

In the fiscal year ending March 31, 2017, we reviewed 2,669 advertising items—a 93% increase over the previous year—in 318 submissions. The government spent $53.7 million on these items, a rise of almost 33% over 2015/16.

Excluded from this total is the $4.67 million spent on digital advertising that is exempt from our review (this includes ads placed on social media websites and advertisements displayed as a result of using a search-marketing service). Including this amount, the total value of government advertising for 2016/17 was $58.39 million.

Last fiscal year, the government spent $43.65 million on 1,384 individual advertising items in 182 submissions. Digital advertising (including social and search-marketing services) was worth another $6.27 million, for a total value of $49.9 million.

See **Figure 1** for a breakdown of 2016/17 reviewable advertising costs by government ministry and **Figure 2** for a breakdown of spending by category. **Figure 3** shows a breakdown of government advertising costs since 2007. Since the changes to the Act came into effect in 2015, government spending on advertising has increased noticeably.

The top 15 advertising topics in 2016/17 by expenditure are listed in **Figure 4**. These campaigns accounted for almost 63% of the total reviewable expenditure on advertisements that our Office reviewed in the past fiscal year. It is worth noting that three out of the top six would not have passed our review prior to the 2015 amendments to the Act, and one other included some submissions we had concerns with.

Three Violations, One Contravention under Amended Act

We found all advertising submitted to our Office in the 2016/17 fiscal year complied with the amended Act, with the exception of three submissions as follows:

- A preliminary version of a $1.95-million Ministry of Health and Long-Term Care television campaign called "Investing in Health Care" was found in violation of section 6(1)1 of the Act because it failed to include a statement saying the items had been paid for by the Government of Ontario.
- A preliminary version of a $300,000 cinema advertisement by the Ministry of Advanced Education and Skills Development about the Ontario Student Assistance Program was found in violation of section 6(1)1 of the Act because it failed to include a statement saying the items had been paid for by the Government of Ontario.
- The final version of a Ministry of Natural Resources television advertisement promoting the 50 Million Trees Program was found in violation of section 6(1)1 of the Act because it failed to include a statement saying the item had been paid for by the Government of Ontario.

Figure 1: Expenditures for Reviewable Advertisements under the *Government Advertising Act, 2004*, April 1, 2016–March 31, 2017*

Source of data: Ontario Government ministries

Ministry	# of Submissions	# of Items	Production/ Agency Costs ($)	Media Costs ($)					Total ($)
				TV	Radio	Print	Digital	Out-of-Home[1]	
Advanced Education and Skills Development	14	137	2,017,603	282,568	33,199	6,362	627,384	110,980	**3,078,096**
Agriculture, Food and Rural Affairs	3	23	–	882,815	549,873	–	–	94,844	**1,527,532**
Anti-Racism Directorate – Cabinet Office	3	43	9,252	–	1,020	42,524	–	–	**52,796**
Attorney General	3	10	1,838	–	–	4,234	12,006	–	**18,078**
Children and Youth Services	2	14	13,588	–	–	–	511,778	–	**525,366**
Citizenship and Immigration	6	27	38,204	426,040	75,845	57,430	89,220	–	**686,739**
Community Safety and Correctional Services	4	6	–	27,277	–	958	25,733	–	**53,968**
Community and Social Services	4	36	4,425	–	9,117	160,559	128,053	–	**302,154**
Economic Development and Growth	10	31	–	5,000	–	157,158	134,485	24,823	**321,466**
Education	5	71	530,486	1,860,516	–	81,723	493,088	–	**2,965,813**
Energy	4	37	102,248	–	776,175	36,086	247,788	–	**1,162,297**
Environment and Climate Change	22	221	1,369,369	3,398,437	–	–	855,455	–	**5,623,261**
Finance	10	195	831,713	–	766,602	892,117	977,224	–	**3,467,656**
Francophone Affairs/Seniors/Accessibility	3	29	–	–	207,139	196,306	332,986	–	**736,431**
Government and Consumer Services	17	67	–	–	127,577	9,733	364,469	–	**501,779**
Health and Long-Term Care	78	1195	2,679,894	3,910,568	2,433,997	3,144,191	3,522,801	4,152,385	**19,843,836**
Indigenous Relations and Reconciliation	3	5	77	–	–	2,662	–	–	**2,739**
Infrastructure	4	75	640,214	1,535,711	–	–	773,027	–	**2,948,952**
International Trade	5	23	144,962	–	435,965	1,781	113,190	–	**695,898**
Labour	6	74	88,554	–	982,900	166,343	622,235	150,196	**2,010,228**
Municipal Affairs/Housing	2	4	10,202	–	–	52,357	–	–	**62,559**
Natural Resources and Forestry	30	149	1,188	56,182	20,161	156,893	62,515	3,080	**300,019**
Status of Women	1	1	7,743	–	–	–	102,260	–	**110,003**
Tourism, Culture and Sport	70	177	1,148,748	1,605,774	109,995	152,684	147,312	82, 609	**3,164,513**
Transportation	9	49	472,755	1,578,370	684,186	–	750,652	75,199	**3,561,162**
Total	**318**	**2,699**	**10,113,063**	**15,569,258**	**7,213,751**	**5,322,101**	**10,893,661**	**4,611,507**	**53,723,341**

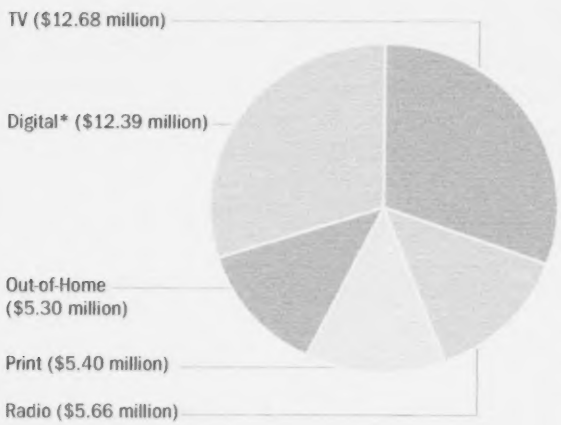
Note: The ministries of Northern Development and Mines, Research, Innovation and Science, and Treasury Board Secretariat did not incur any advertising costs under the Act.

* The *Auditor General Act* requires our Office to report annually on expenditures for advertising and printed matter reviewable under the Act. In order to verify completeness and accuracy, we may review selected payments and supporting documentation. We can also examine compliance relating to the sections of the Act dealing with submission requirements and use of ads during the Auditor General's review.

1. Includes billboards, transit posters, digital screens, etc.

Figure 2: Advertising Expenditure by Medium, 2016/17

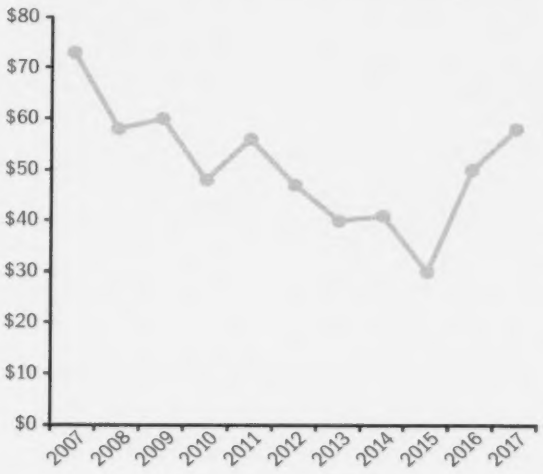
Source of data: Office of the Auditor General/Advertising Review Board



* Includes costs of all digital advertising, including those types that are exempt from our review.

Figure 3: Advertising Expenditures, 2011–2017* ($ million)

Source of data: Office of the Auditor General/Advertising Review Board



* Yearly expenditures include digital advertising costs.

Figure 4: Top 15 Advertising Expenditures per Topic for 2016/17

Source of data: Ontario government ministries

Topic	Ministry	Expenditure ($ million)
Climate Change[1]	Environment and Climate Change	5.62
Health Care investments[2]	Health and Long-Term Care	5.19
Distracted Driving	Transportation	3.26
Growth	Infrastructure	2.95
Ontario 150[3]	Tourism, Culture and Sport	2.92
Education Life Cycle[3]	Education	2.88
OSAP[3]	Advanced Education and Skills Development	2.86
Smoking Cessation[3]	Health and Long-Term Care	2.51
Immunization[3]	Health and Long-Term Care	2.06
Ontario Savings Bonds	Finance	1.95
Health-Care Options[3]	Health and Long-Term Care	1.93
My Cancer IQ[3]	Health and Long-Term Care	1.63
Foodland Ontario	Agriculture, Food and Rural Affairs	1.53
Seasonal Influenza	Health and Long-Term Care	1.50
Menu Labelling[3]	Health and Long-Term Care	1.40
Total		**33.70**

1. Included two campaigns with the same theme "Let them Figure it Out" and "Save the Everything."
2. Included two campaigns with same theme "Investing in Health Care" and "Foundations in Health Care."
3. More costs to be incurred next fiscal year.

In addition, the Ministry of Energy informed us that a radio ad about Indigenous engagement sessions regarding Ontario's Long-Term Energy Plan ran without first having been reviewed by our Office. The Ministry thus contravened section 4.1(1) of the Act. As well, the ad failed to include a statement saying it had been paid for by the Government of Ontario, as required by section 6(1)1 of the Act.

Overview of Our Compliance Function

What Falls under the Act

The Act applies to advertisements that government offices—specifically, government ministries, Cabinet Office and the Office of the Premier—propose to pay to have published in a newspaper or magazine, displayed on a billboard, displayed digitally in a prescribed form or manner, or broadcast on radio or television, or in a cinema. It also applies to printed matter that a government office proposes to pay to have distributed to households in Ontario by bulk mail or another method of bulk delivery. Advertisements meeting any of these definitions are known as "reviewable" items and must be submitted to our Office for review and approval for compliance with the amended Act before they can run.

In addition, all proposed television and cinema commercials, along with bulk-distributed printed materials (householders) must be submitted before they are completed for preliminary review by our Office in each language the government intends to run them. After receiving a preliminary approval, these proposed advertisements must be resubmitted in their final form for approval. (Under the old Act, preliminary reviews were voluntary, and could be submitted in a single language. This was a more efficient and streamlined process.)

The Act requires government offices to submit reviewable items to our Office. They cannot publish, display, broadcast, or distribute the submitted item until the head of that office (usually the deputy minister) receives notice, or is deemed to have received notice, that the advertisement has been found in compliance with legislation.

If our Office does not render a compliance decision within the five business days set out in regulation, then the government office is deemed to have received notice that the item is in compliance with the Act, and may run it.

If our Office notifies the government office that the item is not in compliance with the Act, the item may not be used. However, the government office may submit a revised version of the rejected item for another review. Compliance approvals are valid for the life of the proposed media campaign.

The Act excludes from our review advertisements for specific government jobs (but not generic recruitment campaigns) and notices to the public required by law. Also exempt are advertisements on the provision of goods and services to a government office, and those regarding urgent matters affecting public health or safety.

Revised Criteria for Proposed Advertisements

In conducting its review, the Auditor General's Office now only determines whether the proposed advertisement is in compliance with the amended Act. The following are the areas with which the advertisement must be in compliance:

1. It must include a statement that it is paid for by the Government of Ontario.
2. It must not be partisan. The revised Act says an item is "partisan" only if it: includes the name, voice or image of a member of the Executive Council or of a member of the Assembly (unless the item's primary target audience is located outside of Ontario); includes the name or logo of a recognized party; directly identifies and criticizes a recognized party or a member of the Assembly; and/or includes, to a significant degree, a colour associated with the governing party.

We have no authority to consider any other factors, such as factual accuracy or tone, to determine whether an item is partisan.

Other Review Protocols

Since assuming responsibility for the review of government advertising in 2005, our Office has worked with the government to clarify procedures to cover areas where the Act is silent. What follows is a brief description of the significant areas that have required such clarification over the years.

Websites

Although government websites were not specifically reviewable in the original Act, we took the position that a website or similar linkage used in an advertisement is an extension of the advertisement. Following past discussions with the government, our Office came to an agreement soon after the legislation was originally passed that the first page, or "click," of a website cited in a reviewable item would be included in our review.

We continue to consider the content only of the first click, unless it is a gateway page or lacks meaningful content, in which case we review the next page. We examine this page for any content that may not meet the standards of the amended Act. For example, the page must not include a minister's name or photo.

Social Media

The government significantly increased its presence on social-media websites over the 13 years since the Act came into effect, and our Office often receives advertisements for approval that use icons pointing to various social-media websites.

Although the original Act was silent on social media, we reached an agreement with the government that we would perform an initial scan of any social-media platform cited in an advertisement to ensure that the standards of the Act are being followed. We do, however, recognize that content on these networks changes frequently and can at times be beyond the control of the government office, so our limited review continues to focus only on the content that the government controls.

Third-Party Advertising

Government funds provided to third parties are sometimes used for advertising. The government and our Office agreed in 2005 that third-party advertising must be submitted for review if it meets all three of the following criteria:

- A government office provided the third party with funds intended to pay part or all of the cost of publishing, displaying, broadcasting or distributing the item.
- The government granted the third party permission to use the Ontario logo or another official provincial visual identifier in the item.
- The government office approved the content of the item.

This agreement currently remains in place. In the last fiscal year, our Office did not receive any submissions that would constitute third-party advertising.

Chapter 6

Standing Committee on Public Accounts

Role of the Committee

The Standing Committee on Public Accounts (Committee) is empowered to review and report to the Legislative Assembly its observations, opinions and recommendations on reports from the Auditor General and on the Public Accounts. These reports are deemed to have been permanently referred to the Committee as they become available. The Committee examines, assesses and reports to the Legislative Assembly on a number of issues, including the economy and efficiency of government and broader-public-sector operations, and the effectiveness of government programs in achieving their objectives.

Under sections 16 and 17 of the *Auditor General Act*, the Committee may also request that the Auditor General examine any matter in respect of the Public Accounts or undertake a special assignment on its behalf.

The Committee typically holds hearings throughout the year when the Legislature is in session relating to matters raised in our Annual Report or in our special reports and may present its observations and recommendations to the Legislative Assembly.

Appointment and Composition of the Committee

Members of the Committee are appointed by a motion of the Legislature. The number of members from any given political party reflects that party's representation in the Legislative Assembly. All members except the Chair may vote on motions, while the Chair votes only to break a tie. The Committee is normally established for the duration of the Parliament, from the opening of its first session immediately following a general election to its dissolution.

In accordance with the Standing Orders of the Legislative Assembly and following the June 2014 election, Committee members were appointed on July 16, 2014. The Chair and Vice-chair were elected on October 22, 2014 at the Committee's first meeting. The membership as of September 2017 is as follows:

- Ernie Hardeman, Chair, Progressive Conservative
- Lisa MacLeod, Vice-chair, Progressive Conservative
- Bob Delaney, Liberal
- Vic Dhillon, Liberal
- Han Dong, Liberal
- John Fraser, Liberal
- Percy Hatfield, New Democrat
- Randy Hillier, Progressive Conservative
- Monte Kwinter, Liberal

Auditor General's Advisory Role with the Committee

In accordance with section 16 of the *Auditor General Act*, at the request of the Committee, the Auditor General, often accompanied by senior staff, attends Committee meetings to assist with its reviews and hearings relating to our Annual Report, Ontario's Public Accounts and any special reports issued by our Office.

Committee Procedures and Operations

The Committee may meet weekly when the Legislative Assembly is sitting and, with the approval of the House, at any other time of its choosing. All meetings are open to the public except for those dealing with the Committee's agenda and the preparation of its reports. All public Committee proceedings are recorded in Hansard, the official verbatim report of debates, speeches and other Legislative Assembly proceedings.

The Committee identifies matters of interest from our Annual Report and our special reports and conducts hearings on them. It typically reviews reports from the value-for-money chapter and follow-up chapters of our Annual Report. Normally, each of the three political parties annually selects three audits or other sections from our Annual Report for Committee review.

At each hearing, the Auditor General, senior staff from her Office, and a Research Officer from the Legislative Research Service brief the Committee on the applicable section from our Report. A briefing package is prepared by the Research Officer that includes the responses of the relevant ministry, Crown agency or broader-public-sector organization that was the subject of the audit or review. The Committee typically requests senior officials from the auditee(s) to appear at the hearings and respond to the Committee's questions. Because our Annual Report deals with operational, administrative and financial rather than policy matters, ministers are rarely asked to attend. Once the Committee's hearings are completed, the Research Officer may prepare a draft report pursuant to the Committee's instructions, as the Committee typically reports its findings to the Legislative Assembly.

Every year the Clerk of the Committee also requests those auditees that were not selected for hearings to provide the Committee with an update of the actions taken to address our recommendations and other concerns raised in our reports.

Meetings Held

The Committee held 23 meetings between September 2016 and August 2017. Topics addressed at these meetings included Ontario's Public Accounts, the Long-Term-Care Home Quality Inspection Program, Electricity Power System Planning, University Intellectual Property, Child and Youth Mental Health, Physician Billing, Large Community Hospital Operations, Employment Ontario, Road Infrastructure Construction Contract Awarding and Oversight, and Information and Information Technology General Controls. Many of these meetings included hearings in which government and broader-public-sector witnesses were called to testify before the Committee and respond to questions regarding observations contained in our reports. Other meetings were spent on Committee business, writing the Committee's reports, or hearing briefings from the Auditor General.

Reports of the Committee

The Committee issues reports on its work for tabling in the Legislative Assembly. These reports

summarize the information gathered by the Committee during its meetings and include the Committee's comments and recommendations. Once tabled, all Committee reports are publicly available through the Clerk of the Committee or online at **www.ontla.on.ca**, as well as on our website at **www.auditor.on.ca**.

Committee reports typically include recommendations and a request that management of the ministry, agency or broader-public-sector organization provide the Committee Clerk with responses within a stipulated time frame. As of September 30, 2017, the Committee was in the process of drafting five reports, and it has tabled the following eight reports in the Legislature since our last report on its activities:

- October 17, 2016: Healthy Schools Strategy
- December 1, 2016: Community Care Access Centres—Home Care Program
- December 5, 2016: Toward Better Accountability
- December 8, 2016: Hydro One—Management of Electricity Transmission and Distribution Assets
- March 21, 2017: Electricity Power System Planning
- April 13, 2017: University Intellectual Property
- May 17, 2017: Public Accounts of the Province
- May 29, 2017: Long-Term-Care Home Quality Inspection Program

One of the eight reports tabled by the Committee—Healthy Schools Strategy—was a follow-up report completed by our Office in our *2015 Annual Report*. For the hearing, the Committee called witnesses to discuss how they have progressed on our recommendations. Five of the other reports tabled by the Committee addressed our 2015 value-for-money audits on Community Care Access Centres—Home Care Program, Hydro One—Management of Electricity Transmission and Distribution Assets, Electricity Power System Planning, University Intellectual Property, and the Long-Term-Care Home Quality Inspection Program. The two remaining reports tabled by the Committee address Chapter 5 of our *2015 Annual Report*, titled Toward Better Accountability, and Chapter 2 of our *2015 Annual Report* on the Public Accounts of the Province.

In addition, Volume 2 of our Annual Report includes our follow-ups on the recommendations the Committee made in all of its reports. In each report section, you will find:

- the recommendations contained in the Committee's original report;
- the auditee's responses to the Committee's recommendations; and
- a table summarizing the status of each action from the Committee's recommendations (for example, fully implemented, in the process of being implemented).

Special Reports

Under section 17 of our Act, the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown may request that the Auditor General undertake a special assignment. However, these special assignments are not to take precedence over the Auditor General's other duties, and the Auditor General can decline such an assignment requested by a minister if he or she believes that it conflicts with other duties.

In recent years when we have received a special request, our normal practice has been to obtain the requester's agreement that the special report will be tabled in the Legislature on completion and made public at that time.

On September 27, 2017, the Standing Committee on Public Accounts passed a motion for us to conduct an audit of the proposed Metrolinx GO stations at Kirby and Lawrence East. As well, on October 25, 2017, the Standing Committee on Public Accounts passed a motion for us to conduct an audit of the Niagara Peninsula Conservation Authority. These reports will be tabled in 2018.

Canadian Council of Public Accounts Committees

The Canadian Council of Public Accounts Committees (CCPAC) consists of delegates from federal, provincial and territorial public accounts committees from across Canada. CCPAC holds a joint annual conference with the Canadian Council of Legislative Auditors to discuss issues of mutual interest.

The 38th annual conference was hosted in Fredericton, New Brunswick, from September 10 to 12, 2017.

Chapter 7

Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario (Office) serves the Legislative Assembly and the citizens of Ontario by conducting value-for-money, financial, information technology, governance and special audits, reviews and investigations, and reporting on them. In so doing, the Office helps the Legislative Assembly hold the government, its administrators and grant recipients accountable for how prudently they spend public funds, and for the value they obtain for the money spent on behalf of Ontario taxpayers.

The work of the Office is performed under the authority of the *Auditor General Act*. In addition, under the amended *Government Advertising Act, 2004*, the Auditor General is responsible for reviewing and approving certain types of proposed government advertising for compliance with the amended *Government Advertising Act* (see **Chapter 5** for more details on the Office's advertising-review function). Also, in a year that a regularly scheduled election is held, the Auditor General is required under the *Fiscal Transparency and Accountability Act, 2004* to review and deliver an opinion on the reasonableness of the government's pre-election report on its expectations for the financial performance of the Province over the next three fiscal years.

All three Acts can be found at **www.e-laws.gov.on.ca**.

General Overview

Value-for-Money Audits

More than two-thirds of the Office's work relates to value-for-money auditing, which assesses how well a given "auditee" (the entity that we audit) manages and administers its programs or activities. Value-for-money audits delve into the auditee's underlying operations to assess the level of service being delivered to the public and the relative cost-effectiveness of the service. The Office has the authority to conduct value-for-money audits of the following entities:

- Ontario Government ministries;
- Crown agencies;
- Crown-controlled corporations; and
- organizations in the broader public sector that receive government grants (for example, agencies that provide mental-health services, children's aid societies, community colleges, hospitals, long-term-care homes, school boards and universities).

The *Auditor General Act* (Act) [in subclauses 12(2)(f)(iv) and (v)] identifies the criteria to be considered in a value-for-money audit:

- Money should be spent with due regard for economy.
- Money should be spent with due regard for efficiency.
- Appropriate procedures should be in place to measure and report on the effectiveness of programs.

The Act requires that the Auditor General report on any instances he or she may have observed where these three value-for-money criteria have not been met. More specific criteria that relate directly to the operations of the particular ministry, program or organization being audited are also developed for each value-for-money audit.

The Act also requires that the Auditor General report on instances where the following was observed:

- Accounts were not properly kept or public money was not fully accounted for.
- Essential records were not maintained or the rules and procedures applied were not sufficient to:
  - safeguard and control public property;
  - effectively check the assessment, collection and proper allocation of revenue; or
  - ensure that expenditures were made only as authorized.
- Money was expended for purposes other than the ones for which it was appropriated.

Assessing the extent to which the auditee complies with the requirement to protect against these risks is generally incorporated into both value-for-money audits and "attest" audits (discussed in a later section). Other compliance work that is also typically included in value-for-money audits includes determining whether the auditee adheres to key provisions in legislation and the authorities that govern the auditee or the auditee's programs and activities.

Government programs and activities are the result of government policy decisions. Thus, our value-for-money audits focus on how well management is administering and executing government policy decisions. It is important to note, however, that in doing so we do not comment on the merits of government policy. Rather, it is the Legislative Assembly that holds the government accountable for policy matters by continually monitoring and challenging government policies through questions during legislative sessions and through reviews of legislation and expenditure estimates.

In planning, performing and reporting on our value-for-money work, we follow the relevant professional standards established by the Chartered Professional Accountants of Canada. These standards require that we have processes for ensuring the quality, integrity and value of our work. Some of the processes we use are described in the following sections.

Selecting What to Audit

The Office audits significant ministry programs and activities, organizations in the broader public sector, Crown agencies and Crown-controlled corporations. Audits are selected using a risk-based approach. Since our mandate expanded in 2004 to allow us to examine organizations in the broader public sector, our audits have covered a wide range of topics in sectors such as health (hospitals, long-term-care homes, Community Care Access Centres, and mental-health service providers), education (school boards, universities and colleges), and social services (children's aid societies and social-service agencies), as well as several large Crown-controlled corporations.

In selecting what program, activity or organization to audit each year, we consider how great the risk is that an auditee is not meeting the three value-for-money criteria, resulting in potential negative consequences for the public it serves. The factors we consider include the following:

- the impact of the program, activity or organization on the public;
- the total revenues or expenditures involved;
- the complexity and diversity of the auditee's operations;
- the results of previous audits and related follow-ups;
- recent significant changes in the auditee's operations;
- the significance of the potential issues an audit might identify; and
- whether the benefits of conducting the audit justify its costs.

We also consider work that has been done by the auditee's internal auditors, and may rely on, or reference, that work in the conduct of our audit. Depending on what that work consists of, we may defer an audit or change our audit's scope to avoid duplication of effort. In cases where we do not reduce the scope of our audit, we still use and reference the results of internal audit work in our audit report.

Setting Audit Objectives, Audit Criteria and Assurance Levels

When we begin an audit, we set an objective for what the audit is to achieve. We then develop suitable audit criteria to evaluate the design and operating effectiveness of key systems, policies and procedures to address identified risks. Developing criteria involves extensive research on work done by recognized bodies of experts; other organizations or jurisdictions delivering similar programs and services; management's own policies and procedures; applicable criteria used in other audits; and applicable laws, regulations and other authorities.

To further ensure their suitability, the criteria we develop are discussed with the auditee's senior management at the planning stage of the audit.

The next step is to design and conduct tests so that we can reach a conclusion regarding our audit objective, and make relevant and meaningful observations and recommendations. Each audit report has a section titled "Audit Objective and Scope," in which the audit objective is stated and the scope of our work is explained. As required under our Act, we also report on circumstances where information was either difficult to obtain or not available for our review.

We plan our work to be able to obtain and provide assurance at an "audit level"—the highest reasonable level of assurance that we can obtain. Specifically, an audit level of assurance is obtained by interviewing management and analyzing information that management provides; examining and testing systems, procedures and transactions; confirming facts with independent sources; and, where necessary because we are examining a highly technical area, obtaining independent expert assistance and advice. We also use professional judgment in much of our work.

Standard audit procedures are designed to provide "a reasonable level of assurance" (rather than an "absolute level") that the audit will identify significant matters and material deviations. Certain factors make it difficult for audit tests to identify all deviations. For example, we may conclude that the auditee had a control system in place for a process or procedure that was working effectively to prevent a particular problem from occurring, but that auditee management or staff might be able to circumvent such control systems, so we cannot guarantee that the problem will never arise.

With respect to the information that management provides, under the Act we are entitled to access all relevant information and records necessary to perform our duties.

The Office can access virtually all information contained in Cabinet submissions or decisions that we deem necessary to fulfill our responsibilities under the Act. However, out of respect for the principle of Cabinet privilege, we do not seek access to the deliberations of Cabinet.

Infrequently, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information provided by management; and only limited examination and testing of systems, procedures and transactions. We perform reviews when:

- it would be prohibitively expensive or unnecessary to provide a higher level of assurance; or
- other factors relating to the nature of the program or activity make it more appropriate to conduct a review instead of an audit.

Communicating with Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management throughout the value-for-money audit or review. Early in the process, our staff meet with management to discuss the objective, criteria and focus of our work in general terms. During the audit or review, our staff meet with management to update them on our progress and ensure open lines of communication.

At the conclusion of on-site work, management is briefed on our preliminary results. A conditional draft report is then prepared and provided to and discussed with the auditee's senior management, who provide written responses to our recommendations. These are discussed and incorporated into the draft report, which the Auditor General finalizes with the deputy minister or head of the agency, corporation or grant-recipient organization, after which the report is published in **Chapter 3** of **Volume 1** of the Auditor General's Annual Report. Effective with the audits conducted during 2016/17, and in compliance with new CPA Canada Standards, letters of representation are signed by senior management confirming that they have provided and disclosed to our Office all relevant information pertaining to the audit.

Special Reports

As required by the Act, the Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, under section 12(1), the Office may make a special report to the Legislature at any time, on any matter that, in the opinion of the Auditor General, should not be deferred until the Annual Report.

Two other sections of the Act authorize the Auditor General to undertake additional special work. Under section 16, the Standing Committee on Public Accounts may resolve that the Auditor General must examine and report on any matter respecting the Public Accounts. Under section 17, the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown may request that the Auditor General undertake a special assignment. However, these special assignments are not to take precedence over the Auditor General's other duties, and the Auditor General can decline such an assignment requested by a minister if he or she believes that it conflicts with other duties.

In recent years when we have received a special request under section 16 or 17, our normal practice has been to obtain the requester's agreement that the special report will be tabled in the Legislature on completion and made public at that time.

On September 27, 2017, the Standing Committee on Public Accounts passed a motion for us to conduct an audit of the proposed Metrolinx GO stations at Kirby and Lawrence East. As well, on October 25, 2017, the Standing Committee on Public Accounts passed a motion for us to conduct an audit of the Niagara Peninsula Conservation Authority. These reports will be tabled in 2018.

This year, under section 12(1) of the Act, the Office issued a special report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money* that was tabled in October 2017.

Attest Audits

Attest audits are examinations of an auditee's financial statements. In such audits, the auditor expresses his or her opinion on whether the financial statements present information on the auditee's operations and financial position in a way that is fair and that complies with certain accounting policies (in most cases, with Canadian generally accepted accounting principles). Compliance audit work is also often incorporated into attest-audit work. Specifically, we assess the controls for managing risks relating to improperly kept accounts; unaccounted-for public money; lack of record keeping; inadequate safeguarding of public property; deficient procedures for assessing, collecting and properly allocating revenue; unauthorized expenditures; and not spending money on what it was intended for.

The Auditees

Every year, we audit the financial statements of the Province and the accounts of many agencies of the Crown. Specifically, the Act [in subsections 9(1), (2), and (3)] requires that:

- the Auditor General audit the accounts and records of the receipt and disbursement of public money forming part of the Province's Consolidated Revenue Fund, whether held in trust or otherwise;
- the Auditor General audit the financial statements of those agencies of the Crown that are not audited by another auditor;
- public accounting firms appointed as auditors of certain agencies of the Crown perform their audits under the direction of the Auditor General and report their results to the Auditor General; and
- public accounting firms auditing Crown-controlled corporations deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of the accounting firm's report of its findings and recommendations to management (typically contained in a management letter).

Chapter 2 discusses this year's attest audit of the Province's consolidated financial statements.

We do not typically discuss the results of attest audits of agencies and Crown-controlled corporations in this report unless a significant issue arises and it would be appropriate for all Members of the Legislature to be aware of this issue. Agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible for the agency. Our Office also provides copies of our independent auditors' reports and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Treasury Board.

We identify areas for improvement during the course of an attest audit of an agency and provide our recommendations to agency senior management in a draft report. We then discuss our recommendations with management and revise the report to reflect the results of our discussions. After the draft report is cleared and the agency's senior management have responded to it in writing, we prepare a final report, which is discussed with the agency's audit committee (if one exists). We bring significant matters to the attention of the Legislature by including them in our Annual Report.

Part 1 of **Exhibit 1** lists the agencies that were audited during the 2016/17 audit year. The Office contracts with public accounting firms to serve as our agents in auditing a number of these agencies. Part 2 of **Exhibit 1** and **Exhibit 2** list the agencies of the Crown and the Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2016/17 audit year. **Exhibit 3** lists significant organizations in the broader public sector whose accounts are also audited by public accounting firms and included in the Province's consolidated financial statements.

Other Stipulations of the *Auditor General Act*

The *Auditor General Act* came about with the passage of the *Audit Statute Law Amendment Act* (Amendment Act) on November 22, 2004. The Amendment Act received royal assent on November 30, 2004. The purpose of the Amendment Act was to make certain changes to the Audit Act to enhance our ability to serve the Legislative Assembly. The most significant of these changes was the expansion of our Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants.

In June 2015, the *Building Ontario Up Act (Budget Measures), 2015* received royal assent. Schedule 3 amended section 13(1) of our Act, removing our ability to conduct value-for-money audits of Hydro One Inc. However, as per sections 13(2) and 13(3), Hydro One Inc. must still provide us with the information we need for our audit of the Public Accounts of Ontario. Section 13(4) states that Hydro One Inc. is not required to provide us

with information relating to a period for which Hydro One Inc. has not yet publicly disclosed its financial statements.

Appointment of the Auditor General

Under our Act, the Auditor General is appointed as an Officer of the Legislative Assembly by the Lieutenant Governor in Council. This means that the Lieutenant Governor appoints the Auditor General on the advice of the Executive Council (the Cabinet). The appointment is made "on the address of the Assembly," meaning that the appointee must be approved by the Legislative Assembly. The Act also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Legislative Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information about the Standing Committee on Public Accounts, see **Chapter 6**).

Independence

The Auditor General and staff of the Office are independent of the government and its administration. This independence is an essential safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly.

The Auditor General is appointed to a 10-year, non-renewable term, and can be dismissed only for cause by the Legislative Assembly. Consequently, the Auditor General maintains an arm's-length distance from the government and the political parties in the Legislative Assembly and is thus free to fulfill the Office's legislated mandate without political pressure.

The Board of Internal Economy, an all-party legislative committee that is independent of the government's administrative process, reviews and approves the Office's budget, which is subsequently laid before the Legislative Assembly. As required by the Act, the Office's expenditures in the 2016/17 fiscal year have been audited by a firm of chartered professional accountants, and the audited financial statements of the Office have been submitted to the Board and subsequently must be tabled in the Legislative Assembly. The audited statements and related discussion of expenditures for the year are presented at the end of this chapter.

Confidentiality of Working Papers

In the course of our reporting activities, we prepare draft audit reports and findings reports that are considered an integral part of our audit working papers. Under section 19 of the Act, these working papers do not have to be laid before the Legislative Assembly or any of its committees. As well, our Office is exempt from the *Freedom of Information and Protection of Privacy Act* (FIPPA). This means that our draft reports and audit working papers, including all information obtained from an auditee during the course of an audit, are privileged, and cannot be accessed by anyone under FIPPA, thus further ensuring confidentiality.

Code of Professional Conduct

The Office has a Code of Professional Conduct to ensure that staff maintain high professional standards and keep up a professional work environment. The Code is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office. Our employees have a duty to conduct themselves in a professional manner, and to strive to achieve in their work the highest standards of behaviour, competence and integrity.

The Code explains why these expectations exist, and further describes the Office's responsibilities to the Legislative Assembly, the public and our auditees. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflicts of interest. All employees are required to complete an annual conflict-of-interest declaration and undergo a police security check upon being hired and every five years thereafter.

Office Organization and Personnel

The Office is organized into portfolio teams to align with related audit entities and to foster expertise in the various areas of audit activity. The portfolios, somewhat based on the government's own ministry organization, are each headed by a Director, who oversees and is responsible for the audits within the assigned portfolio. Directors report to Assistant Auditors General, who report to the Auditor General. Reporting to the Directors and rounding out the teams are Audit Managers and various other audit staff, as illustrated in **Figure 1**.

The Auditor General and the Assistant Auditors General make up the Office's Executive Committee. The Auditor General, the Assistant Auditors General, the Audit Directors, the Director of Human Resources and Office Services, and the Manager of Communications and Government Advertising make up the Office's Senior Management Committee.

The Auditor General's Panel of Senior External Advisers

The Auditor General's Panel of Senior External Advisers (Panel) was established in early 2017 to provide strategic advice to the Auditor General on her Office's work. The Panel is governed by Terms of Reference that outline the Panel's mandate, objective, membership, scope of work, and other terms and conditions. The members of the Panel meet at least twice per year and may meet on other occasions when necessary. During 2017, the Panel met four times, reviewing material prior to those meetings.

The Panel comprises a broad cross-section of professionals and experts outside of the Office. Members are selected by the Auditor General based on their capacity to provide the Auditor General with the highest-quality advice in matters pertaining to the Panel's mandate. Members of the Panel are appointed for a term of three years and are eligible for reappointment at the discretion of the Auditor General. There are currently 10 members on the Panel:

- Tim Beauchamp, Former Director, Public Sector Accounting Board
- Richard Brennan, Former Queen's Park reporter
- Deborah Deller, Former Clerk of the Legislative Assembly of Ontario
- Burkard Eberlein, Associate Professor, Public Policy, York University (Schulich)
- Sheila Fraser, Former Auditor General of Canada
- David Marshall, Former President, Workplace Safety and Insurance Board
- William Robson, President and CEO, C.D. Howe Institute
- Carmen Rossiter, Program Director, Centre for Governance, Risk Management and Control, York University (Schulich)
- Wayne Strelioff, Former Auditor General of British Columbia and Former Provincial Auditor of Saskatchewan
- Christopher Wirth, Lawyer, Keel Cottrelle LLP

Quality Assurance Review Process

Professional standards require that auditors establish and maintain a system of quality controls to help ensure that professional and legal standards are met and that audit reports are appropriate in the circumstances. Quality assurance reviews form an essential component of this system by providing a basis for determining whether quality control policies are appropriately designed and applied. The Office has implemented a system of internal quality assurance reviews and is also subject to external quality assurance reviews

Figure 1: Office Organization, September 30, 2017

Auditor General

Bonnie Lysyk

External Senior Advisory Panel

Tim Beauchamp
Richard Brennan
Deborah Deller
Burkard Eberlein
Sheila Fraser
David Marshall
William Robson
Carmen Rossiter
Wayne Strelioff
Christopher Wirth

Assistant Auditors General

Gus Chagani
Rudolph Chiu
Susan Klein
Nick Stavropoulos

Communications and Government Advertising Review

Christine Pedias, Manager
Mariana Green
Peggy Hill
Tiina Randoja
Rachel Tilner

Professional Practices

Rebecca Yosipovich, Director

Audit Learning Network

Jing Wang, Manager

Operations

Human Resources and Finance
Cindy MacDonald, Director, Human Resources, IT and Administrative Services
Li-Lian Koh, Manager, Finance

Payroll and Administration
Vilma Juseviciene
Sohani Myers
Louise Pellerin

Information Technology
Scott Gosse, Manager

Strategy and Research

Vanessa Dupuis
Christine Wu

Financial Statement Audit Portfolios and Staff*

Public Accounts

Bill Pelow, Director
Audelyn Budihardjo, Manager
David Catarino, Manager
Georgegiana Tanudjaja, Manager
Marcia DeSouza
Taylor Lew

Crown Agencies

Teresa Carello, Director
Jeremy Blair, Manager
Neil Ganatra
Roger Munroe
Cynthia Tso
Nancy Wong

Crown Agencies

Laura Bell, Director
Mary Martino, Manager
Izabela Beben
Tom Chatzidimos
Kandy Fletcher
Adam Reuben
Zachary Thomas

Value-for-Money Audit Portfolios and Staff*

Education and Economic Development

Vanna Gotsis, Director
Tino Bove, Manager
Rashmeet Gill, Manager
Kundai Marume
Ellen Tepelenas
Jeremy Walton

Health, Energy, Justice and Regulatory

Sandy Chan, Director
Kim Cho, Director
Vivan Sin, Director
Gigi Yip, Director
Anane Chan, Manager
Marian D'Mello, Manager
Fraser Rogers, Manager
Alice Stonell, Manager
Michael Yarmolinsky, Manager
Arujunan Balakrishnan
Paul Bertucci
Thomas Fitzmaurice
Emilia Gurgul
Jane Lu
Benjamin Leung
Mohak Malik
Julia Man
Wendy Ng
Lisa Nguyen
Mafu Ojisua
Gurinder Parmar
Margaret Sciortino
Pasha Sidhu
Adam Vanderheyden
Alla Volodina
Brian Wanchuk
Jessica Wong

Information Technology

Kartik Chadha, Director
Shariq Saeed, Manager
Shuaib Mohammed
Jimmy Luong

Infrastructure, Environment and Agriculture

Naomi Herberg, Director
Katrina Exaltacion, Manager
Anne Benaroya
Dimitar Dimitrov
Jesse Dufour
Muddassir Mahmood
Kristy May
Mamta Patel
Jennifer Sisopha

Social Services and Transportation

Shreya Shah, Manager
Emanuel Tsikritsis, Manager
Navreen Chohan
Evan Gravenor
Arie Lozinsky
Paul Mathew
Zahid Muradzada
Victoria Szablowski
Dora Ulisse

Recommendations, Follow-ups and Cross-Ministry

Wendy Cumbo, Director
Christine Sarkar, Manager
Denise Young, Manager
Helena Cheung
Aman Deol
Ali Hamza

* Staff below manager level shift between portfolios to address seasonal financial statement audit workload pressures.

both by the Chartered Professional Accountants (CPA) of Ontario and by the Canadian Council of Legislative Auditors.

The internal quality assurance review process consists of reviews of completed audit files on a cyclical basis by individuals within the Office. Individuals chosen for this role are conversant with and have up-to-date knowledge of the application of professional accounting and assurance standards and have no other involvement with the audit. The selection of audit files for quality assurance review is based on criteria designed to provide the Office with reasonable confidence that professional standards and Office policies are being met. The selection criteria include, but are not limited to, the risk associated with the engagement (such as complexity or public sensitivity) and the results of previous quality assurances reviews.

In addition to internal file reviews, the Office designates audit challengers for each value-for-money audit conducted. Challengers are at the Manager and Director levels. They review and question audit teams' audit planning reports and final reports.

The Office is also subject to review by CPA Ontario, which conducts a triennial practice inspection of our Office to assess whether, as practitioners of public accounting, we are adhering to the professional standards set out in the *CPA Canada Handbook* and CPA Ontario's *Member's Handbook*. Practice inspection involves an assessment of the Office's quality controls and a review of a sample of completed audit files selected by CPA Ontario.

As well, through our participation in the Canadian Council of Legislative Auditors, our Office undergoes external quality assurance reviews on a regular basis. These reviews are conducted by experienced professional auditors from other jurisdictions across Canada. In addition to providing assurance that quality control systems are well designed and effective, this process also facilitates the sharing and exchange of information and experience, and encourages and supports continued development of auditing methodology, practices, and professional development.

Canadian Council of Legislative Auditors

This year, New Brunswick hosted the 38th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Fredericton from September 10 to 12, 2017. This annual conference is held jointly with the annual meeting of the Canadian Council of Public Accounts Committees (CCPAC). It brings together legislative auditors and members of the Standing Committees on Public Accounts from the federal government, provinces and territories, and provides an excellent opportunity for sharing ideas, exchanging information and learning about best practices for Standing Committees on Public Accounts in Canada.

International Visitors

As an acknowledged leader in value-for-money auditing, the Office frequently receives requests to meet with visitors and delegations from abroad to discuss the roles and responsibilities of our Office, and to share our value-for-money and other audit experiences. During the period from October 1, 2016, to September 30, 2017, our Office hosted delegations from China, France, Mongolia and Nepal. As well, in 2017, our Office participated in a successful six-month staff exchange value-for-money audit with the National Audit Office of the United Kingdom.

Results Produced by the Office This Year

This was another productive year for the Office. In total, while operating within our budget, we completed 14 value-for-money audits, 15 follow-ups on previous value-for-money reports, one follow-up on a previous Special Report, seven follow-ups

on reports issued by the Standing Committee on Public Accounts and one report in the Toward Better Accountability section of our Annual Report on the quality of reporting in the annual reports of provincial agencies and organizations in the broader public sector. We also expanded our tracking of the status of previous recommendations made by following up on the total 622 actions we recommended in our annual reports of 2012, 2013 and 2014.

The Audit Recommendations Follow-Up Team that did this work also put in place a system for ongoing follow-ups on our audit recommendations and those of the Standing Committee on Public Accounts. We also issued one Special Report: *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money* (tabled in October 2017).

As mentioned in the Attest Audits section earlier, we are responsible for auditing the Province's consolidated financial statements (further discussed in **Chapter 2**), as well as the statements of more than 40 Crown agencies. We met all of our key financial statement audit deadlines while continuing to invest in training to ensure adherence to accounting and assurance standards and methodology for conducting attest audits.

We successfully met our review responsibilities under the *Government Advertising Act, 2004*, as further discussed in **Chapter 5**.

The results produced by the Office this year would not have been possible without the hard work and dedication of our staff, as well as that of our agent auditors, contract staff and our Panel of Senior External Advisers.

Public Inquiries

The Office of the Auditor General receives inquiries from the public, Members of Provincial Parliament and the civil service through letter, fax, email and phone. Each inquiry is reviewed on a case-by-case basis and is logged to ensure that the information is recorded, and that we can track inquiries received and responses provided. The Office has one central intake of public inquiries. The Office conducts an annual overall review of public inquiries to assess actions taken and for consideration as part of the audit selection process. During the fiscal year 2016/17 fiscal year, the Office received over 600 public inquiries.

Financial Accountability

The following discussion and our financial statements present the Office's financial results for the 2016/17 fiscal year. Our financial statements have been prepared in accordance with Canadian Public-Sector Accounting Standards. In accordance with these standards, we have presented a breakdown of our expenses by the main activities our Office is responsible for: value-for-money and special audits, financial-statement audits, and the review of government advertising. This breakdown is provided in **Note 9** to the financial statements and indicates that 66% of our time was used to perform value-for-money and special audits, a stated priority of the Standing Committee on Public Accounts, and 33% to completing the audits of the annual financial statements of the Province and over 40 of its agencies. The remaining time was devoted to our statutory responsibilities under the *Government Advertising Act*.

Figure 2 provides a comparison of our approved budget and expenditures over the last five years. **Figure 3** presents the major components of our spending during the 2016/17 fiscal year, and shows that salary and benefit costs for staff accounted for 71% (69% in 2015/16), while professional and other services, along with rent, comprised most of the remainder. These proportions have been relatively stable in recent years. **Figure 4** presents the year-over-year percentage change of actual expenditures. Overall, our expenses increased by 9% in 2016/17 from the previous year.

Figure 2: Five-Year Comparison of Spending (Accrual Basis) ($ 000)
Prepared by the Office of the Auditor General of Ontario

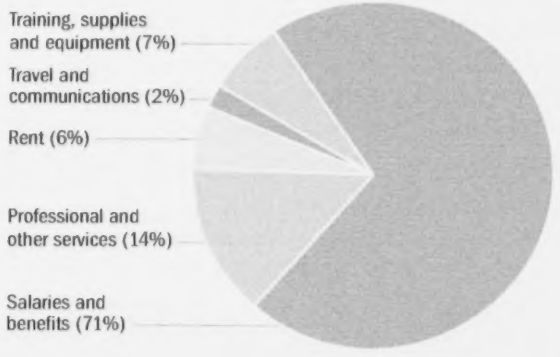
	2012/13	2013/14	2014/15	2015/16	2016/17
Approved budget	**16,224**	**16,427**	**16,520**	**18,083**	**18,566**
Actual expenses					
Salaries and benefits	11,390	11,342	11,201	11,504	12,830
Professional and other services	1,716	1,827	2,352	2,268	2,538
Rent	989	1,001	1,008	1,059	1,090
Travel and communications	309	276	336	354	312
Training, supplies and equipment	942	1,145	1,305	1,415	1,328
Total	**15,346**	**15,591**	**16,202**	**16,600**	**18,098**
Unused appropriations*	**1,000**	**679**	**160**	**974**	**42**

* These amounts are typically slightly different than the excess of appropriation over expenses as a result of non-cash expenses (such as amortization of capital assets, deferred lease inducements and employee future benefit accruals).

Our salaries budget was frozen for five years, from 2010/11 to 2014/15. As a result, we were unable to fully staff up to our approved complement, and we faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market—our public-service salary ranges have not kept pace with compensation increases for such professionals in the private sector. In July 2015, the Board of Internal Economy of the Legislature approved our request for salary and benefits funding for the 2015/16 fiscal year to be able to fill our vacant positions and bring our staffing to our Board of Internal Economy–approved complement of 116. We experienced timing challenges in filling these positions in 2016/17. However, as of March 31, 2018, we will be close to our approved staffing complement.

A more detailed discussion of the changes in our expenses and some of the challenges we face follows.

Figure 3: Spending by Major Expenditure Category, 2016/17
Prepared by the Office of the Auditor General of Ontario


Training, supplies and equipment (7%)
Travel and communications (2%)
Rent (6%)
Professional and other services (14%)
Salaries and benefits (71%)

Salaries and Benefits

Our salary and benefit costs were 12% higher than in 2015/16. Salary increases were a result of the annualized cost of 2015/16 hires and implementing changes to staff compensation per a Cabinet Office letter dated December 15, 2015, that provided increases to those working in the Ontario Government. We applied similar increases in our Office. Benefit costs increased due to a combination of the annualized cost of 2015/16 new hires, the salary increases just mentioned and severance payments to retiring or terminated staff.

In 2016/17, our average staffing level increased by nine, to 109 employees from 100 in 2015/16, as shown in **Figure 5**. Most students who earned their professional accounting designation during the year remained with us. Salaries for qualified accountants rise fairly quickly in the private sector in the first five years following qualification,

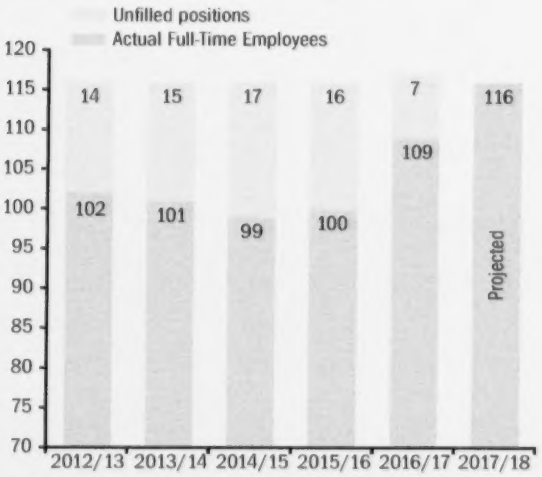
Figure 4: Actual Expenses for 2016/17 and 2015/16 ($ 000)

Prepared by the Office of the Auditor General of Ontario

Actual Expenses	2016/17	2015/16	% Change
Salaries and benefits	12,830	11,504	12
Professional and other services	2,538	2,268	12
Rent	1,090	1,059	3
Travel and communications	312	354	(12)
Training, supplies and equipment	1,328	1,415	(6)
Total expenses	**18,098**	**16,600**	
Average % change			**9**

Figure 5: Staffing, 2012/13–2017/18

Prepared by the Office of the Auditor General of Ontario



Note: As of October 1, 2017, all complement positions were filled.

so we also increased our salaries to our newly qualified staff in order to remain competitive. These increases are in line with the public-sector salary ranges.

Staff departures were experienced due both to the market for professional accountants remaining fairly robust and to the retirement of a number of long-term staff. Our hiring continues to be primarily at levels where our salaries and benefits are competitive. The growing complexity of our audits requires highly qualified, experienced staff.

Professional and Other Services

These services include both contracted CPA firms and contract specialists assisting in our value-for-money audits and one-time projects. These services account for about 14% of total expenses and increased by 12% compared with the previous year to accommodate additional work requirements during peak work periods. As well, supplemental internal staff time was spent on the Special Report we tabled in October 2017. Given the more complex work and peak period deadlines for finalizing the financial statement audits of Crown agencies and the Province, we continue to rely on contract professionals to assist us in meeting our legislated responsibilities. As such, we prudently engage contract staff when necessary to cover for special assignments and parental or unexpected leaves, as well as to help us manage peak workloads during the late spring and summer months.

Contract costs for the CPA firms with which we work remain high because of the higher salaries they pay their staff. We continue to competitively test the market for such services as contracts expire.

Rent

Our costs for accommodation increased by 3% compared with last year, due to an increase in utility costs billed under our 10-year lease.

Travel and Communications

Our travel and communications costs decreased by 12% as the audits selected required less travel compared with last year.

Training, Supplies and Equipment

This category includes asset amortization, supplies and equipment maintenance, training and statutory expenses. These expenses were 6% lower than last year, as more training was able to be provided to staff at a lower cost.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General of Ontario are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian public sector accounting principles.

Management maintains a system of internal controls that provides reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded, and the financial information contained in these financial statements is reliable and accurate.

The financial statements have been audited by the firm of Adams & Miles LLP, Chartered Professional Accountants. Their report to the Board of Internal Economy, stating the scope of their examination and opinion on the financial statements, appears on the following page.

Bonnie Lysyk, CPA, CA, LPA
Auditor General
October 31, 2017

Nick Stavropoulos, CPA, CA
Assistant Auditor General
October 31, 2017

Adams & Miles LLP
Chartered Professional Accountants

501-2380 Victoria Park Ave.
Toronto, ON M2J 5A9
Tel: 416 502 2301
Fax: 416 502 2319

300-105 County Court Blvd.
Brampton, ON L6W 4K7
Tel: 905 459 5805
Fax: 905 459 2800

INDEPENDENT AUDITOR'S REPORT

To the Board of Internal Economy of
Legislative Assembly of Ontario

We have audited the accompanying financial statements of the Office of the Auditor General of Ontario, which comprise the statement of financial position as at March 31, 2017 and the statements of operations and accumulated deficit, changes in net financial debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the Office of the Auditor General of Ontario's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of the Auditor General of Ontario's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Ontario as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Adams & Miles LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 31, 2017

Office of the Auditor General of Ontario

Statement of Financial Position
As at March 31, 2017

	2017 $	2016 $
Financial assets		
Cash	1,249,274	620,623
Harmonized sales taxes recoverable	174,681	178,876
Due from Consolidated Revenue Fund	-	289,597
	1,423,955	1,089,096
Financial liabilities		
Accounts payable and accrued liabilities (Note 4)	2,023,392	1,862,900
Accrued employee benefits obligation [Note 5(B)]	1,837,000	2,107,000
Due to Consolidated Revenue Fund	177,591	-
Deferred lease inducement (Note 10)	147,686	179,909
	4,185,669	4,149,809
Net financial debt	(2,761,714)	(3,060,713)
Non-financial assets		
Tangible capital assets (Note 3)	1,328,779	1,202,221
Accumulated deficit	(1,432,935)	(1,858,492)

Commitments (Note 6)
Measurement uncertainty [Note 2(F)]

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:

Bonnie Lysyk, CPA, CA, LPA
Auditor General

Nick Stavropoulos, CPA, CA
Assistant Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit
For the Year Ended March 31, 2017

	2017 Budget (Note 12) $	2017 Actual $	2016 Actual $
Expenses			
Salaries and wages	10,706,300	10,155,568	9,574,443
Employee benefits (Note 5)	3,178,100	2,674,172	1,929,601
Professional and other services	2,067,300	2,537,487	2,267,886
Office rent	1,091,000	1,090,269	1,058,562
Amortization of capital assets	—	440,938	381,490
Travel and communication	409,100	312,168	354,235
Training and development	139,000	145,634	202,986
Supplies and equipment	514,800	269,509	381,474
Statutory expenses: *Auditor General Act*	278,300	311,220	280,137
Government Advertising Act	10,000	325	8,150
Statutory services	171,700	160,276	160,586
Total expenses (Notes 8 and 9)	18,565,600	18,097,566	16,599,550
Revenue			
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	18,565,600	18,565,600	18,082,600
Excess of revenue over expenses		468,034	1,483,050
Less: returned to the Province [Note 2(B)]		42,477	973,532
Net operations surplus		425,557	509,518
Accumulated deficit, beginning of year		(1,858,492)	(2,368,010)
Accumulated deficit, end of year		(1,432,935)	(1,858,492)

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Changes in Net Financial Debt
For the Year Ended March 31, 2017

	2017 $	2016 $
Net operations surplus	425,557	509,518
Purchase of tangible capital assets	(567,496)	(326,117)
Amortization of tangible capital assets	440,938	381,490
Decrease in net financial debt	298,999	564,891
Net financial debt, beginning of year	(3,060,713)	(3,625,604)
Net financial debt, end of year	(2,761,714)	(3,060,713)

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows
For the Year Ended March 31, 2017

	2017 $	2016 $
Operating transactions		
Net operations surplus	425,557	509,518
Amortization of tangible capital assets	440,938	381,490
Amortization of deferred lease inducement	(32,223)	(32,222)
Accrued employee benefits expense	(299,000)	(569,000)
	535,272	289,786
Changes in non-cash working capital		
Decrease (increase) in harmonized sales taxes recoverable	4,195	(38,065)
Decrease in due from Consolidated Revenue Fund	467,188	81,161
Increase in accounts payable and accrued salaries and benefits (Note 4)	189,492	269,631
	660,875	312,727
Cash provided by operating transactions	1,196,147	602,513
Capital transactions		
Purchase of tangible capital assets	(567,496)	(326,117)
Increase in cash	628,651	276,396
Cash, beginning of year	620,623	344,227
Cash, end of year	1,249,274	620,623

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

1. Nature of Operations

In accordance with the provisions of the *Auditor General Act* and various other statutes and authorities, the Auditor General, through the Office of the Auditor General of Ontario (the Office), conducts independent audits of government programs, of institutions in the broader public sector that receive government grants, and of the fairness of the financial statements of the Province and numerous agencies of the Crown. In doing so, the Office promotes accountability and value-for-money in government operations and in broader public sector organizations.

Additionally, under the *Government Advertising Act, 2004*, the Office is required to review specified types of advertising, printed matter or reviewable messages proposed by government offices to determine whether they meet the standards required by the Act.

Under both Acts, the Auditor General reports directly to the Legislative Assembly.

As required by the *Fiscal Transparency and Accountability Act, 2004*, in an election year the Office is also required to report on the reasonableness of a Pre-Election Report prepared by the Ministry of Finance.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian public sector accounting standards. The significant accounting policies are as follows:

(A) ACCRUAL BASIS

These financial statements are accounted for on an accrual basis whereby expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

(B) VOTED APPROPRIATIONS

The Office is funded through annual voted appropriations from the Province of Ontario. Unspent appropriations are returned to the Province's Consolidated Revenue Fund each year. As the voted appropriation is prepared on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting, including the capitalization and amortization of tangible capital assets, the deferral and amortization of the lease inducement and the recognition of employee benefits expenses earned to date but that will be funded from future appropriations.

The voted appropriation for statutory expenses is intended to cover the salary of the Auditor General as well as the costs of any expert advice or assistance required to help the Office meet its responsibilities under the *Government Advertising Act* and the *Fiscal Transparency and Accountability Act*, or to conduct special assignments under Section 17 of the *Auditor General Act*.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

2. Summary of Significant Accounting Policies (Continued)

(C) TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at historical cost less accumulated amortization. Amortization of tangible capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	5 years
Leasehold improvements	The remaining term of the lease

(D) FINANCIAL INSTRUMENTS

The Office's financial assets and financial liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value.
- Due from Consolidated Revenue Fund is recorded at cost.
- Accounts payable and accrued liabilities are recorded at cost.
- Accrued employee benefits obligation is recorded at cost based on the entitlements earned by employees up to March 31, 2017. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made as it is not expected that there would be a significant difference from the recorded amount.

It is management's opinion that the Office is not exposed to any interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

(E) DEFERRED LEASE INDUCEMENT

The deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced November 1, 2011.

(F) MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Items requiring the use of significant estimates include: useful life of capital assets and accrued employee benefits obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates. These estimates and assumptions are reviewed periodically, and adjustments are reported in the Statement of Operations and Accumulated Deficit in the year in which they become known.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

3. Tangible Capital Assets

	Computer hardware $	Computer software $	Furniture and fixtures $	Leasehold improvements $	2017 Total $
Cost					
Balance, beginning of year	721,668	147,022	278,986	986,863	2,134,539
Additions	301,488	222,740	43,268	-	567,496
Write-off of fully amortized assets	(165,519)	(98,564)	(13,825)	-	(277,908)
Balance, end of year	857,637	271,198	308,429	986,863	2,424,127
Accumulated amortization					
Balance, beginning of year	431,259	125,623	101,571	273,865	932,318
Amortization	203,053	51,860	56,390	129,635	440,938
Write-off of fully amortized assets	(165,519)	(98,564)	(13,825)	-	(277,908)
Balance, end of year	468,793	78,919	144,136	403,500	1,095,348
Net Book Value, March 31, 2017	388,844	192,279	164,293	583,363	1,328,779

	Computer hardware $	Computer software $	Furniture and fixtures $	Leasehold improvements $	2016 Total $
Cost					
Balance, beginning of year	733,039	196,094	237,143	986,863	2,153,139
Additions	232,454	-	93,663	-	326,117
Write-off of fully amortized assets	(243,825)	(49,072)	(51,820)	-	(344,717)
Balance, end of year	721,668	147,022	278,986	986,863	2,134,539
Accumulated amortization					
Balance, beginning of year	500,860	142,112	108,343	144,230	895,545
Amortization	174,224	32,583	45,048	129,635	381,490
Write-off of fully amortized assets	(243,825)	(49,072)	(51,820)	-	(344,717)
Balance, end of year	431,259	125,623	101,571	273,865	932,318
Net Book Value, March 31, 2016	290,409	21,399	177,415	712,998	1,202,221

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

4. Accounts Payable and Accrued Liabilities

	2017 $	2016 $
Accounts payable	540,538	528,364
Accrued salaries and benefits	827,854	650,536
Accrued severance, vacation and other credits	655,000	684,000
	2,023,392	1,862,900

Accounts payable relates largely to normal business transactions with third-party vendors and is subject to standard commercial terms. Accruals for salaries and benefits and severance, vacation and other credits are recorded based on employment arrangements and legislated entitlements.

5. Obligation for Employee Future Benefits

Although the Office's employees are not members of the Ontario Public Service, under provisions in the *Auditor General Act*, the Office's employees are entitled to the same benefits as Ontario Public Service employees. The future liability for benefits earned by the Office's employees is included in the estimated liability for all provincial employees that have earned these benefits and is recognized in the Province's consolidated financial statements. In the Office's financial statements, these benefits are accounted for as follows:

(A) PENSION BENEFITS

The Office's employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Office's annual payments to the fund. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Office. The Office's required annual payment of $839,029 (2016 - $745,623), is included in employee benefits expense in the Statement of Operations and Accumulated Deficit.

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

The costs of legislated severance, compensated absences and unused vacation entitlements earned by employees during the year amounted to $564,000 (2016 – ($50,000) and are included in employee benefits in the Statement of Operations and Accumulated Deficit. The total liability for these costs is reflected in the accrued employee benefits obligation, less any amounts payable within one year, which are included in accounts payable and accrued liabilities, as follows:

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

5. Obligation for Future Employee Benefits (Continued)

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

	2017 $	2016 $
Total liability for severance and vacation credits	2,492,000	2,791,000
Less: Due within one year and included in accounts payable and accrued liabilities	655,000	684,000
Accrued employee benefits obligation	1,837,000	2,107,000

(C) OTHER NON-PENSION POST-EMPLOYMENT BENEFITS

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

6. Commitments

The Office has an operating lease to rent premises which expires on October 31, 2021. The minimum rental commitment for the remaining term of the lease is as follows:

	$
2017–18	514,200
2018–19	521,700
2019–20	527,100
2020–21	534,600
2021–22	314,400

The Office is also committed to pay its proportionate share of realty taxes and operating expenses for the premises amounting to approximately $628,000 during 2017 (2016 - $565,000).

Subsequent to March 31, 2017, the Office entered into negotiation with its landlord to potentially relocate in order to accommodate the landlord's building expansion project, which is scheduled to commence in fiscal 2018. Should the relocation materialize for an extended period, the rental commitment stated above may vary and the net book value of the leasehold improvements may need to be written off.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

7. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of the salary and benefits paid to all Ontario public-sector employees earning an annual salary in excess of $100,000. This disclosure for the 2016 calendar year is as follows:

Name	Position	Salary $	Taxable Benefits $
Lysyk, Bonnie	Auditor General	310,174	4,031
Chagani, Gus	Assistant Auditor General	172,930	246
Chiu, Rudolph	Assistant Auditor General	175,887	250
Klein, Susan	Assistant Auditor General	172,930	246
Stavropoulos, Nick	Assistant Auditor General	144,313	215
Amerski, Bartosz	Director	110,927	160
Bell, Laura	Director	145,505	211
Carello, Teresa	Director	129,985	188
Chan, Sandy	Director	138,765	196
Cho, Kim	Director	134,447	193
Cumbo, Wendy	Director	128,084	193
Gotsis, Vanna	Director	145,268	210
Herberg, Naomi	Director	125,997	193
Mazzone, Vince	Director	158,948	213
McDowell, John	Director	112,155	166
Pelow, William	Director	147,204	211
Qazi, Osman	Director	110,424	178
Sin, Vivian	Director	127,307	188
MacDonald, Cindy	Director, Human Resources	119,368	181
Allan, Walter	Audit Manager	116,868	172
Bove, Tino	Audit Manager	114,032	172
Budihardjo, Audelyn	Audit Manager	105,536	164
DeSousa, Constantino	Audit Manager	100,065	154
Muhammad, Shariq	Audit Manager	108,246	167
Rogers, Fraser	Audit Manager	121,258	172
Tsikritsis, Emanuel	Audit Manager	121,258	172
Young, Denise	Audit Manager	123,385	185
Krishnamurphy, Varkala	Manager, Financial Accounting and Reporting	101,173	-
Pedias, Christine	Manager, Corporate Communications and Government Advertising Review	115,026	171
Persaud, Janackdai	Financial and Administrative Coordinator	110,828	156
Randoja, Tiina	Editorial and Communications Coordinator	103,466	161
Wilson, Robyn	Audit Researcher and Legal Advisor	106,141	153
Yosipovich, Rebecca	Standards and Research Manager	115,008	171
Beben, Izabela	Audit Supervisor	102,214	162
Chan, Ariane	Audit Supervisor	106,557	159
Chang, Sally	Audit Supervisor	102,036	162
Chatzidimos, Tom	Audit Supervisor	102,679	162
DeSouza, Marcia	Audit Supervisor	103,079	158

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

7. Public Sector Salary Disclosure Act, 1996 (Continued)

Name	Position	Salary $	Taxable Benefits $
Martino, Mary	Audit Supervisor	102,336	162
Sidhu, Pasha	Audit Supervisor	101,961	161
Tepelenas, Ellen	Audit Supervisor	106,663	162
Ulisse, Dora	Audit Supervisor	100,890	162
Wanchuk, Brian	Audit Supervisor	106,663	162

8. Reconciliation to Public Accounts Volume 1 Basis of Presentation

The Office's Statement of Expenses presented in Volume 1 of the Public Accounts of Ontario was prepared on a basis consistent with the accounting policies followed for the preparation of the Estimates submitted for approval to the Board of Internal Economy, under which purchases of computers and software are expensed in the year of acquisition rather than being capitalized and amortized over their useful lives. Volume 1 also excludes the accrued obligation for employee future benefits and deferred lease inducement recognized in these financial statements. A reconciliation of total expenses reported in Volume 1 to the total expenses reported in these financial statements is as follows:

	2017 $	2016 $
Total expenses per Public Accounts Volume 1	18,555,347	17,145,399
purchase of tangible capital assets	(567,496)	(326,117)
amortization of tangible capital assets	440,938	381,490
change in accrued future employee benefit costs	(299,000)	(569,000)
amortization of deferred lease inducement	(32,223)	(32,222)
	(457,781)	(545,849)
Total expenses per the Statement of Operations and Accumulated Deficit	18,097,566	16,599,550

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

9. Expenses by Activity

	2017				
	Salaries and Benefits	Other Operating Expenses	Statutory Expenses	Total	%
Value for money and special audits	8,711,393	2,872,057	358,105	11,941,555	66.0
Financial statement audits	4,041,368	1,899,290	97,831	6,038,489	33.4
Government advertising	76,979	24,658	15,885	117,522	0.6
	12,829,740	4,796,005	472,821	18,097,566	100.0
%	70.9	26.5	2.6	100.0	

	2016				
	Salaries and Benefits	Other Operating Expenses	Statutory Expenses	Total	%
Value for money and special audits	8,052,831	2,684,447	393,100	11,130,378	67.1
Financial statement audits	3,359,181	1,922,123	33,616	5,314,920	32.0
Government advertising	92,032	40,063	22,157	154,252	0.9
	11,504,044	4,646,633	448,873	16,599,550	100.0
%	69.3	28.0	2.7	100.0	

Expenses have been allocated to the Office's three main activities based primarily on the hours charged to each activity as recorded by staff in the Office's time accounting system, including administrative time and overhead costs that could not otherwise be identified with a specific activity. Expenses incurred for only one activity, such as most travel costs and professional services, are allocated to that activity based on actual billings.

10. Deferred Lease Inducement

As part of the lease arrangements for its office premises, the Office negotiated a lease inducement of $322,225 to be applied to future accommodation costs. This deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced November 1, 2011. The Office received payment for the lease inducement in 2015.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2017

11. Unused Appropriations

	2017 $	2016 $
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	18,565,600	18,082,600
Less: Appropriations received from the Province	18,523,123	17,109,068
Unused Appropriations	42,477	973,532
Funding not requested	7,022	733,377
Cash returned to the Province	3,232	207,933
Adjustment for amortization of deferred lease inducement	32,223	32,222
	42,477	973,532

12. Budgeted Figures

Budgeted figures were approved by the Board of Internal Economy and were prepared on a modified cash basis of accounting for presentation in Volume 1 of the Public Accounts of Ontario. This differs from Public Sector Accounting Standards, as discussed in Note 8.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current basis of the financial statement presentation.

Exhibit 1

Agencies of the Crown

1. Agencies whose accounts are audited by the Auditor General

Agricorp
Algonquin Forestry Authority
Cancer Care Ontario
Centennial Centre of Science and Technology (Ontario Science Centre)
Chief Electoral Officer, Election Finances Act
Election Fees and Expenses, Election Act
Financial Accountability Office of Ontario
Financial Services Commission of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans, Wheat and Canola
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Motor Vehicle Accident Claims Fund
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Children's Lawyer
Office of the Environmental Commissioner
Office of the French Language Services Commissioner
Office of the Information and Privacy Commissioner
Office of the Ombudsman
Ontario Clean Water Agency (December 31)*
Ontario Educational Communications Authority (TVO)
Ontario Electricity Financial Corporation
Ontario Energy Board
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Trust
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Mortgage and Housing Corporation
Ontario Northland Transportation Commission
Ontario Place Corporation (December 31)*
Ontario Securities Commission
Pension Benefits Guarantee Fund, Financial Services Commission of Ontario
Province of Ontario Council for the Arts
Province Advocate for Children and Youth
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario

2. Agencies whose accounts are audited by another auditor under the direction of the Auditor General

Niagara Parks Commission
St. Lawrence Parks Commission
Workplace Safety and Insurance Board (December 31)*

* Dates in parentheses indicate fiscal years ending on a date other than March 31.

Exhibit 2

Crown-Controlled Corporations

Corporations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers and other related documents as required

Alcohol and Gaming Commission of Ontario
Agricultural Research Institute of Ontario
Brampton Distribution Holdco Inc. (December 31)*
Central East Local Health Integration Network
Central Local Health Integration Network
Central West Local Health Integration Network
Champlain Local Health Intgration Network
Deposit Insurance Corporation of Ontario (December 31)*
Education Quality and Accountability Office
eHealth Ontario
Erie St. Clair Local Health Integration Network
Forest Renewal Trust
Hamilton Niagara Haldimand Brant Local Health Integration Network
HealthForceOntario Marketing and Recruitment Agency
Health Shared Services Ontario (HSSOntario)
Higher Education Quality Council of Ontario
Human Rights Legal Support Centre
Hydro One Inc. (December 31)*
Independent Electricity System Operator (December 31)*
McMichael Canadian Art Collection
Metrolinx
Metropolitan Toronto Convention Centre Corporation
Mississauga Halton Local Health Integration Network
Municipal Property Assessment Corporation
North East Local Health Integration Network
North Simcoe Muskoka Local Health Integration Network
North West Local Health Integration Network
Ontario Capital Growth Corporation
Ontario Climate Change Solutions Deployment Corporation (GreenON)
Ontario College of Trades
Ontario French-language Educational Communications Authority
Ontario Health Quality Council
Ontario Infrastructure and Lands Corporation
Ontario Lottery and Gaming Corporation
Ontario Mortgage and Housing Corporation
Ontario Pension Board (December 31)*
Ontario Power Generation Inc. (December 31)*
Ontario Tourism Marketing Partnership Corporation
Ontario Trillium Foundation
Ottawa Convention Centre Corporation
Owen Sound Transportation Company Limited
Public Health Ontario
Royal Ontario Museum
Science North
South East Local Health Integration Network
South West Local Health Integration Network
Toronto Central Local Health Integration Network
Toronto Islands Residential Community Trust Corporation
Toronto Waterfront Revitalization Corporation
Trillium Gift of Life Network
Walkerton Clean Water Centre
Waterloo Wellington Local Health Integration Network
Waterfront Regeneration Trust Agency

* Dates in parentheses indicate fiscal years ending on a date other than March 31.

Exhibit 3

Organizations in the Broader Public Sector

Broader-public-sector organizations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers and other related documents as required*

PUBLIC HOSPITALS (MINISTRY OF HEALTH AND LONG-TERM CARE)

Alexandra Hospital Ingersoll
Alexandra Marine & General Hospital
Almonte General Hospital
Anson General Hospital
Arnprior Regional Health
Atikokan General Hospital
Baycrest Centre for Geriatric Care
Bingham Memorial Hospital
Bluewater Health
Brant Community Healthcare System
Brockville General Hospital
Bruyère Continuing Care Inc.
Cambridge Memorial Hospital
Campbellford Memorial Hospital
Carleton Place and District Memorial Hospital
Casey House Hospice
Chatham-Kent Health Alliance
Children's Hospital of Eastern Ontario
Clinton Public Hospital
Collingwood General and Marine Hospital
Cornwall Community Hospital
Deep River and District Hospital Corporation
Dryden Regional Health Centre
Englehart and District Hospital Inc.
Espanola General Hospital
Four Counties Health Services
Georgian Bay General Hospital
Geraldton District Hospital
Grand River Hospital
Grey Bruce Health Services
Groves Memorial Community Hospital
Guelph General Hospital
Haldimand War Memorial Hospital
Haliburton Highlands Health Services Corporation
Halton Healthcare Services Corporation
Hamilton Health Sciences Corporation
Hanover and District Hospital
Headwaters Health Care Centre
Health Sciences North
Holland Bloorview Kids Rehabilitation Hospital
Hôpital Général de Hawkesbury and District General Hospital Inc.
Hôpital Glengarry Memorial Hospital
Hôpital Montfort
Hôpital Notre Dame Hospital (Hearst)
Hornepayne Community Hospital
Hospital for Sick Children
Hôtel-Dieu Grace Healthcare
Hôtel-Dieu Hospital, Cornwall
Humber River Regional Hospital
Joseph Brant Hospital
Kemptville District Hospital
Kingston General Hospital
Kirkland and District Hospital
Lady Dunn Health Centre
Lady Minto Hospital at Cochrane
Lake of the Woods District Hospital
Lakeridge Health

* This exhibit only includes the more financially significant organizations in the broader public sector.

Leamington District Memorial Hospital
Lennox and Addington County General Hospital
Listowel Memorial Hospital
London Health Sciences Centre
Mackenzie Health
Manitoulin Health Centre
Manitouwadge General Hospital
Markham Stouffville Hospital
Mattawa General Hospital
Muskoka Algonquin Healthcare
Niagara Health System
Nipigon District Memorial Hospital
Norfolk General Hospital
North Bay Regional Health Centre
North Shore Health Network
North of Superior Healthcare Group
North Wellington Health Care Corporation
North York General Hospital
Northumberland Hills Hospital
Orillia Soldiers' Memorial Hospital
Ottawa Hospital
Pembroke Regional Hospital Inc.
Perth and Smiths Falls District Hospital
Peterborough Regional Health Centre
Providence Care Centre (Kingston)
Providence Healthcare
Queensway-Carleton Hospital
Quinte Healthcare Corporation
Red Lake Margaret Cochenour Memorial Hospital Corporation
Religious Hospitallers of St. Joseph of the Hôtel Dieu of Kingston
Religious Hospitallers of St. Joseph of the Hotel Dieu of St. Catharines
Renfrew Victoria Hospital
Riverside Health Care Facilities Inc.
Ross Memorial Hospital
Rouge Valley Health System
Royal Victoria Regional Health Centre
Runnymede Healthcare Centre
Salvation Army Toronto Grace Health Centre
Sault Area Hospital
Scarborough Hospital
Seaforth Community Hospital
Sensenbrenner Hospital
Services de santé de Chapleau Health Services
Sinai Health System
Sioux Lookout Meno-Ya-Win Health Centre
Smooth Rock Falls Hospital
South Bruce Grey Health Centre
South Huron Hospital Association
Southlake Regional Health Centre
St. Francis Memorial Hospital
St. Joseph's Care Group
St. Joseph's Continuing Care Centre of Sudbury
St. Joseph's General Hospital, Elliot Lake
St. Joseph's Health Care, London
St. Joseph's Health Centre (Guelph)
St. Joseph's Health Centre (Toronto)
St. Joseph's Healthcare Hamilton
St. Mary's General Hospital
St. Mary's Memorial Hospital
St. Michael's Hospital
St. Thomas-Elgin General Hospital
Stevenson Memorial Hospital
Stratford General Hospital
Strathroy Middlesex General Hospital
Sunnybrook Health Sciences Centre
Temiskaming Hospital
Thunder Bay Regional Health Sciences Centre
Tillsonburg District Memorial Hospital
Timmins and District Hospital
Toronto East Health Network
Trillium Health Partners
University Health Network
University of Ottawa Heart Institute
Weeneebayko Area Health Authority
West Haldimand General Hospital
West Nipissing General Hospital
West Park Healthcare Centre
West Parry Sound Health Centre
William Osler Health System
Winchester District Memorial Hospital
Windsor Regional Hospital
Wingham and District Hospital
Women's College Hospital
Woodstock General Hospital Trust

SPECIALTY PSYCHIATRIC HOSPITALS (MINISTRY OF HEALTH AND LONG-TERM CARE)

Centre for Addiction and Mental Health
Ontario Shores Centre for Mental Health Sciences
Royal Ottawa Health Care Group
Waypoint Centre for Mental Health Care

CHILDREN'S AID SOCIETIES (MINISTRY OF CHILDREN AND YOUTH SERVICES)

Bruce Grey Child and Family Services
Catholic Children's Aid Society of Hamilton
Catholic Children's Aid Society Toronto
Chatham-Kent Children's Services
Children and Family Services for York Region
Children's Aid Society of Algoma
Children's Aid Society of Hamilton
Children's Aid Society of London and Middlesex
Children's Aid Society of Ottawa
Children's Aid Society of Oxford County
Children's Aid Society of the City of Sarnia and the County of Lambton
Children's Aid Society of the District of Nipissing and Parry Sound
Children's Aid Society of the District of Sudbury-Manitoulin
Children's Aid Society of the Region of Peel
Children's Aid Society of the Regional Municipality of Halton
Children's Aid Society of the United Counties of Stormont-Dundas-Glengarry
Children's Aid Society of Thunder Bay
Children's Aid Society of Toronto
Dufferin Child and Family Services
Durham Children's Aid Society
Family and Children's Services of St Thomas and Elgin
Family and Children's Services of Frontenac Lennox and Addington
Family and Children's Services of Guelph and Wellington
Family and Children's Services of Lanark Leeds and Grenville
Family And Children's Services of Renfrew County
Family and Children's Services of the Waterloo Region
Highland Shores Children's Aid Society
Huron-Perth Children's Aid Society
Jewish Family and Child Service of Greater Toronto
Kawartha-Haliburton Children's Aid Society
Kenora-Rainy River Districts Child and Family Services
North Eastern Ontario Family and Children's Services
Simcoe Muskoka Child, Youth and Family Services
The Children's Aid Society of Brant
The Children's Aid Society of Haldimand and Norfolk
The Children's Aid Society of the Niagara Region
Valoris Pour Enfants Et Adultes De Prescott-Russell/ Valoris for Children and Adults
Windsor-Essex Children's Aid Society
Akwesasne Child and Family Services
Anishinaabe Abinoojii Family Services
Dilico Anishinabek Family Care
Kina Gbezhgomi Child and Family Services
Kunuwanimano Child and Family Services
Native Child And Family Services of Toronto
Payukotayno James and Hudson Bay Family Services
Tikinagan Child and Family Services
Weechi-it-te-Win Family Services

SCHOOL BOARDS (MINISTRY OF EDUCATION)

Algoma District School Board
Algonquin and Lakeshore Catholic District School Board
Avon Maitland District School Board
Bloorview MacMillan School Authority
Bluewater District School Board
Brant Haldimand Norfolk Catholic District School Board

Bruce-Grey Catholic District School Board
Campbell Children's School Authority
Catholic District School Board of Eastern Ontario
Conseil des écoles publiques de l'Est de l'Ontario
Conseil scolaire catholique Providence
Conseil scolaire de district catholique Centre-Sud
Conseil scolaire de district catholique de l'Est ontarien
Conseil scolaire de district catholique des Aurores boréales
Conseil scolaire de district catholique des Grandes Rivières
Conseil scolaire de district catholique du Centre-Est de l'Ontario
Conseil scolaire de district catholique du Nouvel-Ontario
Conseil scolaire de district catholique Franco-Nord
Conseil scolaire de district du Grand Nord de l'Ontario
Conseil scolaire de district du Nord-Est de l'Ontario
Conseil scolaire Viamonde
District School Board of Niagara
District School Board Ontario North East
Dufferin-Peel Catholic District School Board
Durham Catholic District School Board
Durham District School Board
Grand Erie District School Board
Greater Essex County District School Board
Halton Catholic District School Board
Halton District School Board
Hamilton-Wentworth Catholic District School Board
Hamilton-Wentworth District School Board
Hastings and Prince Edward District School Board
Huron-Perth Catholic District School Board
Huron-Superior Catholic District School Board
James Bay Lowlands Secondary School Board
John McGivney Children's Centre School Authority
Kawartha Pine Ridge District School Board
Keewatin-Patricia District School Board
Kenora Catholic District School Board
KidsAbility School Authority
Lakehead District School Board
Lambton Kent District School Board
Limestone District School Board
London District Catholic School Board
Moose Factory Island District School Area Board
Moosonee District School Area Board
Near North District School Board
Niagara Catholic District School Board
Niagara Peninsula Children's Centre School Authority
Nipissing-Parry Sound Catholic District School Board
Northeastern Catholic District School Board
Northwest Catholic District School Board
Ottawa Catholic District School Board
Ottawa Children's Treatment Centre School Authority
Ottawa-Carleton District School Board
Peel District School Board
Penetanguishene Protestant Separate School Board
Peterborough Victoria Northumberland and Clarington Catholic District School Board
Rainbow District School Board
Rainy River District School Board
Renfrew County Catholic District School Board
Renfrew County District School Board
Simcoe County District School Board
Simcoe Muskoka Catholic District School Board
St. Clair Catholic District School Board
Sudbury Catholic District School Board
Superior North Catholic District School Board
Superior-Greenstone District School Board
Thames Valley District School Board
Thunder Bay Catholic District School Board
Toronto Catholic District School Board
Toronto District School Board
Trillium Lakelands District School Board
Upper Canada District School Board
Upper Grand District School Board
Waterloo Catholic District School Board
Waterloo Region District School Board
Wellington Catholic District School Board
Windsor-Essex Catholic District School Board
York Catholic District School Board
York Region District School Board

COLLEGES (MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES)

Algonquin College of Applied Arts and Technology
Cambrian College of Applied Arts and Technology
Canadore College of Applied Arts and Technology
Centennial College of Applied Arts and Technology
Collège Boréal d'arts appliqués et de technologie
Collège d'arts appliqués et de technologie La Cité collégiale
Conestoga College Institute of Technology and Advanced Learning
Confederation College of Applied Arts and Technology
Durham College of Applied Arts and Technology
Fanshawe College of Applied Arts and Technology
George Brown College of Applied Arts and Technology
Georgian College of Applied Arts and Technology
Humber College Institute of Technology and Advanced Learning
Lambton College of Applied Arts and Technology
Loyalist College of Applied Arts and Technology
Mohawk College of Applied Arts and Technology
Niagara College of Applied Arts and Technology
Northern College of Applied Arts and Technology
Sault College of Applied Arts and Technology
Seneca College of Applied Arts and Technology
Sheridan College Institute of Technology and Advanced Learning
Sir Sandford Fleming College of Applied Arts and Technology
St. Clair College of Applied Arts and Technology
St. Lawrence College of Applied Arts and Technology

Note: Community Care Access Centres (CCACs) are no longer listed in **Exhibit 3** as they were transferred to the Local Health Integration Networks on December 8, 2016 per the *Patients First Act, 2016*, S.O. 2016, c. 30 - Bill 41. The CCACs' legislation was repealed by the aforementioned act.

Exhibit 4

Treasury Board Orders

Under subsection 12(2)(e) of the *Auditor General Act*, the Auditor General is required to annually report all orders of the Treasury Board made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended. These are outlined in the following table. Although ministries may track expenditures related to these orders in more detail by creating accounts at the sub-vote and item level, this schedule summarizes such expenditures at the vote and item level.

Ministry	Date of Order	Authorized ($)	Expended ($)
Aboriginal Affairs	Sep 27, 2016	1,803,300	1,803,300
	Sep 27, 2016	352,700	352,700
	Sep 27, 2016	4,310,000	4,205,045
	Sep 27, 2016	500,000	500,000
	Sep 27, 2016	660,000	660,000
	Oct 18, 2016	1,800,000	1,800,000
	Oct 18, 2016	500,000	500,000
	Mar 15, 2017	570,500	570,500
	Mar 21, 2017	6,500,000	4,192,245
	Mar 30, 2017	655,000	441,092
	Jun 13, 2017	29,029,900	29,027,888
		46,681,400	**44,052,770**
Advanced Education and Skills Development	Jan 9, 2017	2,060,000	670,689
	Jan 9, 2017	1,200,000	–
	Jan 9, 2017	305,700	231,410
	Jan 16, 2017	180,786,000	76,052,882
	Mar 6, 2017	50,000,000	–
	Mar 15, 2017	3,599,500	–
	Mar 21, 2017	5,000,000	–
	Mar 30, 2017	1,500,000	–
		244,451,200	**76,954,981**
Agriculture, Food and Rural Affairs	Sep 27, 2016	116,420,000	–
	Sep 27, 2016	3,130,000	–
	Mar 1, 2017	2,800,000	1,229,271
	Mar 2, 2017	31,000,000	16,768,642
	Mar 21, 2017	19,000,000	–
		172,350,000	**17,997,913**

Ministry	Date of Order	Authorized ($)	Expended ($)
Attorney General	Oct 18, 2016	1,906,500	–
	Oct 18, 2016	2,250,000	1,634,152
	Oct 25, 2016	4,000,000	4,000,000
	Mar 2, 2017	30,532,700	27,291,881
	Mar 28, 2017	386,000	386,000
	Aug 16, 2017	3,000,000	2,058,436
		42,075,200	**35,370,469**
Cabinet Office	Sep 27, 2016	500,000	500,000
	Sep 27, 2016	500,000	500,000
	Sep 27, 2016	2,919,000	2,217,506
	Oct 18, 2016	3,566,600	–
	Nov 29, 2016	1,725,000	–
	Nov 30, 2016	300,000	–
		9,510,600	**3,217,506**
Children and Youth Services	Sep 27, 2016	700,000	700,000
	Sep 27, 2016	10,000,000	2,620,566
	Sep 27, 2016	91,300,000	65,777,165
	Sep 27, 2016	850,000	850,000
	Sep 27, 2016	4,558,100	304,591
	Oct 18, 2016	600,000	–
	Nov 15, 2016	5,833,600	4,134,389
	Dec 14, 2016	15,021,700	–
	Feb 14, 2017	11,450,300	770,341
	Mar 15, 2017	48,200	–
	Mar 21, 2017	2,112,400	264,700
	Mar 21, 2017	17,647,800	–
	Mar 21, 2017	250,000	–
	Mar 24, 2017	1,831,400	–
		162,203,500	**75,421,752**
Citizenship and Immigration	Sep 27, 2016	200,000	–
	Sep 27, 2016	2,000,000	–
	Sep 27, 2016	400,000	–
	Sep 27, 2016	200,000	–
	Oct 18, 2016	6,339,000	1,632,594
	Nov 1, 2016	226,900	–
	Jan 31, 2017	3,000,000	–
	Mar 15, 2017	847,100	–
	Mar 15, 2017	653,500	–
	Mar 15, 2017	100,000	–
	Mar 21, 2017	1,485,000	–
		15,451,500	**1,632,594**

Ministry	Date of Order	Authorized ($)	Expended ($)
Community and Social Services	Sep 27, 2016	2,683,300	2,683,300
	Sep 27, 2016	23,021,600	22,653,407
	Sep 27, 2016	1,420,000	1,420,000
	Oct 18, 2016	2,342,800	2,135,800
	Mar 2, 2017	233,785,600	145,667,515
	Mar 22, 2017	2,100,000	2,100,000
	Mar 22, 2017	3,000,000	3,000,000
	May 9, 2017	9,600,400	–
		277,953,700	**179,660,022**
Community Safety and Correctional Services	Oct 18, 2016	6,509,800	6,263,174
	Nov 22, 2016	10,382,500	10,235,100
	Jan 19, 2017	24,700,000	24,000,000
	Mar 2, 2017	66,032,900	39,038,767
	Mar 2, 2017	15,076,500	–
		122,701,700	**79,537,041**
Economic Development and Growth	Sep 27, 2016	1,000,000	–
	Sep 27, 2016	4,090,000	–
	Sep 27, 2016	150,000	–
	Nov 1, 2016	1,066,600	–
	Nov 1, 2016	9,626,500	–
	Jan 31, 2017	1,900,000	–
	Jan 31, 2017	30,000,000	–
	Feb 14, 2017	865,000	1,900,000
	Mar 6, 2017	60,000,000	30,000,000
	Mar 15, 2017	3,250,000	–
	Mar 21, 2017	4,000,000	–
	Mar 21, 2017	8,250,000	22,004,411
	Mar 21, 2017	7,500,000	–
	Mar 28, 2017	1,900,000	3,129,212
	Mar 30, 2017	163,400	8,339,290
	Apr 4, 2017	19,700,000	–
		153,461,500	**65,372,913**
Education	Sep 27, 2016	975,000	975,000
	Nov 1, 2016	413,400	19,200
	Mar 15, 2017	3,278,200	15,000
	Mar 21, 2017	127,900,000	70,274,197
		132,566,600	**71,283,397**
Energy	Jan 31, 2017	20,800,000	20,800,000
	Feb 22, 2017	28,500,000	28,500,000
	Mar 6, 2017	100,000,000	100,000,000
	Mar 30, 2017	1,100,000	657,830
		150,400,000	**149,957,830**

Exhibit 4

Ministry	Date of Order	Authorized ($)	Expended ($)
Environment and Climate Change	Mar 15, 2017	5,989,800	–
	Mar 21, 2017	1,000,000	–
	Mar 21, 2017	12,599,500	10,152,304
	Mar 21, 2017	1,210,000	–
		20,799,300	**10,152,304**
Finance	Sep 27, 2016	1,400,000	–
	Sep 27, 2016	3,000,000	514,218
	Sep 27, 2016	5,485,700	4,665,299
	Nov 29, 2016	2,200,000	–
	Mar 15, 2017	1,869,000	–
	Mar 21, 2017	3,124,400	1,126,832
	Jul 25, 2017	151,733,300	151,733,300
		168,812,400	**158,039,649**
Government and Consumer Services	Mar 2, 2017	14,931,600	12,034,081
	Mar 15, 2017	456,800	62,100
		15,388,400	**12,096,181**
Health and Long-Term Care	Sep 27, 2016	30,405,000	20,925,000
	Sep 27, 2016	4,740,000	4,740,000
	Mar 15, 2017	18,440,000	9,003,721
	Mar 21, 2017	479,285,900	427,789,736
		532,870,900	**462,458,457**
Labour	Nov 15, 2016	994,000	412,688
	Feb 14, 2017	1,325,000	676,459
	Mar 15, 2017	299,900	–
		2,618,900	**1,089,147**
Lieutenant Governor	Mar 21, 2017	100,000	33,695
		100,000	**33,695**
Municipal Affairs	Sep 27, 2016	243,594,000	198,070,943
	Sep 27, 2016	1,250,800	1,250,800
	Sep 27, 2016	892,800	892,800
	Nov 1, 2016	716,300	–
	Nov 15, 2016	34,731,900	34,731,900
	Nov 29, 2016	340,000	335,649
	Dec 6, 2016	1,311,200	1,311,200
	Jan 24, 2017	4,565,200	3,618,792
	Feb 23, 2017	652,100	341,209
	Mar 2, 2017	8,905,200	5,075,784
		296,959,500	**245,629,077**

Ministry	Date of Order	Authorized ($)	Expended ($)
Natural Resources and Forestry	Sep 27, 2016	350,000	83,593
	Sep 27, 2016	65,000,000	38,181,290
	Mar 21, 2017	19,280,700	17,735,482
	Mar 21, 2017	9,244,200	6,327,402
		93,874,900	**62,327,767**
Northern Development and Mines	Dec 6, 2016	25,000	–
	Apr 4, 2017	46,628,000	46,628,000
	Apr 4, 2017	70,000,000	62,390,293
	Apr 4, 2017	48,500,000	18,318,051
		165,153,000	**127,336,344**
Tourism, Culture and Sport	Sep 27, 2016	8,850,000	8,850,000
	Sep 27, 2016	13,850,000	13,850,000
	Sep 27, 2016	18,000,000	13,804,981
	Oct 18, 2016	1,900,000	388,034
	Feb 23, 2017	3,314,600	–
	Mar 21, 2017	1,500,000	–
	Mar 21, 2017	19,800,000	16,774,437
	Mar 28, 2017	149,971,200	149,971,145
		217,185,800	**203,638,597**
Transportation	Sep 27, 2016	27,900,000	27,792,067
	Mar 15, 2017	2,000,000	–
	Mar 21, 2017	18,222,500	–
	Apr 13, 2017	4,000,000	675,135
		52,122,500	**28,467,202**
Treasury Board Secretariat	Sep 21, 2016	22,065,000	–
	Sep 27, 2016	3,400,000	–
	Sep 27, 2016	11,111,200	–
	Sep 27, 2016	6,551,000	4,423,702
	Oct 18, 2016	2,657,200	–
	Nov 1, 2016	99,919,200	–
	Dec 14, 2016	280,470,000	–
	Dec 14, 2016	239,753,400	813,100
	Jan 30, 2017	2,370,200	–
	Mar 2, 2017	514,726,300	–
	Mar 28, 2017	22,745,300	–
	Mar 28, 2017	16,500,000	–
		1,222,268,800	**5,236,802**
Total Treasury Board Orders		**4,317,961,300**	**2,116,964,410**

Exhibit 4

Office of the Auditor General of Ontario

Annual Report 2017

Follow-Up Report on Audit Recommendations

Volume 2 of 2

Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

In my capacity as the Auditor General, I am pleased to submit to you Volume 2 of the *2017 Annual Report* of the Office of the Auditor General of Ontario to lay before the Assembly in accordance with the provisions of section 12 of the *Auditor General Act*.

Bonnie Lysyk, MBA, FCPA, FCA
Auditor General

Fall 2017
Toronto, Ontario

An electronic version of this report is available at **www.auditor.on.ca**

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Ce document est également disponible en français.

ISSN 1719-2609 (Print)
ISBN 978-1-4868-0866-3 (Print, 2017 ed.) (Volume 2 of 2)
ISBN 978-1-4868-0858-8 (Print, 2017 ed.) (Set)

ISSN 1911-7078 (Online)
ISBN 978-1-4868-0867-0 (PDF, 2017 ed.) (Volume 2 of 2)
ISBN 978-1-4868-0859-5 (PDF, 2017 ed.) (Set)

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Reflections

Introduction

At the Office of the Auditor General, we audit a wide range of services and programs delivered by government, agencies of the Crown and organizations in the broader public sector, and identify areas that need improvement. We take great care to make practical recommendations resulting from our audit findings that these entities can implement to improve the services they provide to Ontarians.

We believe that identifying problems and offering potential solutions is only the first step; the real work begins when those responsible take action to put our recommendations into practice. It is for this reason that an important part of our Office's work is to follow up on our past audits to assess the progress made on our recommended actions.

Our follow-up work consists mainly of discussion with, and review of supporting documents provided by the government, relevant ministries and broader-public-sector entities we've audited. We appreciate their continued co-operation in providing us with comprehensive status updates.

Last year, for the first time, our Office produced a new volume (Volume 2) dedicated to the follow-ups we completed on our 2014 value-for-money audits, on previously issued special reports and on the recommendations issued by the Standing Committee on Public Accounts in 2015.

This year, Volume 2 contains the follow-up work we completed on our 2015 value-for-money audits, on the 2015 Special Report titled *Community Care Access Centres—Financial Operations and Service Delivery*, and on the recommendations issued by the Standing Committee on Public Accounts in 2016/2017. In addition, this year, for the first time, we include **Chapter 4** in this volume, which contains the results from our additional follow-up work on all audit recommendations issued from 2012 to 2014.

During 2016/17, we established a database to electronically track our recommendations and their implementation status from 2012 forward, and the recommendations of the Standing Committee on Public Accounts from 2015 forward. We believe that following up on issued recommendations is more cost-effective than re-auditing the same operations where this could result in the same recommendations being issued as were issued in prior years.

Chapter 1—Follow-Up Reports on *2015 Annual Report* Value-for-Money Audits

This year's report contains 15 follow-up reports from the value-for-money audits published in our *2015 Annual Report*. Consistent with previous years, we note that progress has been made toward implementing the majority, 71%, of our recommended actions (75% in 2016). We note that only 33% have been fully implemented, a lower percentage when compared to the percentage in the prior year of 40%. However, we recognize that the nature of some of our 2015 recommendations may require a longer implementation timeline.

We are encouraged by the implementation of our recommendations and program improvements in a number of areas. For example:

- **Section 1.12 SAMS—Social Assistance Management System**—The Ministry of Community and Social Services has made significant progress in improving the operations of the system integral to providing accurate and timely social-assistance payments to those in need. It has either implemented or is working to implement 100% of our recommendations.
- **Section 1.10 Management of Contaminated Sites**—The Provincial Controller's Office and other ministries have provided us with information supporting their implementation of 66% of our recommended actions, with work proceeding on a further 17% of recommended actions. Steps were taken to set up an oversight body with responsibility for managing contaminated sites, along with the development of a database inventory of all contaminated sites in Ontario. A risk prioritization model was finalized for use in assessing all remediation funding proposals.
- **Section 1.08 LHINs—Local Health Integration Networks**—The Ministry of Health and Long-Term Care and the LHINs have made considerable progress in implementing 46% of our recommended actions and are in progress to implement another 49%. Work has been focused on obtaining information to further understand the reasons for different performance levels among the LHINs, developing common approaches to delivering health-care services and defining what an integrated health system means for Ontarians.
- **Section 1.01 CCACs—Community Care Access Centres—Home Care Program**—The Ministry of Health and Long-Term Care has indicated that CCACs (now part of the LHINs) have fully implemented 39% of our recommended actions, including ensuring care coordinators address overdue assessments and conduct reassessments of people on a timely basis, track the amount and type of caregiver support provided and follow up with discharged clients within required time frames. They are in the process of implementing the majority of the remaining recommendations.
- **Section 1.15 Toward Better Accountability**—Treasury Board Secretariat has either implemented or is making considerable progress in implementing 100% of our recommended actions. These actions will improve the timely availability of the annual reports of entities in the public sector. These reports contain the financial results of these entities, for the benefit of Members of Provincial Parliament (MPPs) and the public.
- **Section 1.07 Infrastructure Planning**—Treasury Board Secretariat and the Ministry of Infrastructure have made progress in fully implementing 44% of our recommended actions and are in the process of implementing the remaining 56%. A cross-sector province-wide framework is still needed to prioritize infrastructure investments, along with more clarity around how a balance is determined between funding repair/rehabilitation projects and new projects.
- **Section 1.04 Economic Development and Employment Programs**—The Ministry of Economic Development and Growth has either fully implemented or is in the process of implementing 80% of our recommended actions.
- **Section 1.14 University Intellectual Property**—The Ministry of Research, Innovation and Science and the universities we visited during our audit have taken steps to implement our recommendations. Although more work is needed, we understand that progress may be slower given the nature of the recommendations. For example: little or no progress has been made in developing socio-economic performance indicators to better communicate outcomes of research and commercialization efforts.

While we are encouraged by the progress made on many of the recommended actions from our *2015 Annual Report*, we have also noted a few areas where little or no action has been taken.

- **Section 1.13 Student Transportation**—The Ministry of Education and the Ministry of Transportation have made little progress on close to 40% of our recommended actions. The Ministry of Education also indicated that it will not be implementing recommendations to, in connection with school boards and transportation consortia: develop consistent safety policies for the transport of students; set standards for optimal utilization of school vehicles; clarify the roles of each body in setting eligibility and employing efficiency measures; and develop standard criteria for selecting school bus operators. The Ministry indicated that it has no legal mandate to impose specific transportation policies on school boards. We obtained a legal opinion on this matter and were advised that school boards are subject to the legal authority of the Ministry of Education. The Minister of Education has specific power to legislate and regulate the transportation of students. This power enables the Minister to implement our recommendations by providing direction/guidance to school boards.
- **Section 1.11 Mines and Minerals Program**—Many of our recommended actions in this audit report were recommended in prior audits issued by our Office. The Ministry of Northern Development and Mines has implemented 32% of our recommended actions, but more work is needed in a number of areas, such as inspecting all high-risk abandoned mines to determine whether these sites pose risks to public safety; and reviewing and updating, where necessary, the Province's mining fees, taxes and royalty payments to ensure that Ontarians receive a fair share of the Province's mineral resources revenue.
- **Section 1.09 Long-Term-Care Home Quality Inspection Program**—Although the Ministry of Health and Long-Term Care has fully implemented 33% of our recommended actions and is in the process of implementing a further 40%, there has been little or no progress on the remaining 27%, which are important. Fluctuations in the number of complaints and critical incidents requiring inspections continue to be an issue. As of April 2017, the backlog of complaints and critical incidents requiring inspections increased to about 3,370, which is an increase from 2,800 in March 2015 during the period of our audit.
- **Section 1.05 Electricity Power System Planning**—The Ministry of Energy has taken steps to implement 44% of our recommended actions and is in the process of implementing another 50%. There is one important recommendation that is not planned to be implemented. In our *2015 Annual Report*, we recommended that the Long-Term Energy Plan (including technical plans), as required under law in 2015, be submitted for review and approval by the Ontario Energy Board, to enable public scrutiny and protect the interests of electricity consumers. Legislation was changed, and the vetting of this plan by the Ontario Energy Board is no longer required under law.

Regarding the follow-up reports in **Sections 1.02 (Child Protection Services—Children's Aid Societies)** and **1.03 (Child Protection Services Program—Ministry)**, the majority of our recommended actions were in the process of being implemented. Given the importance of the care of children and the fact that many of the recommended actions in these reports were also recommended in reports issued by our Office over the last decade, we encourage both the Ministry of Children and Youth Services and Children's Aid Societies to proceed with their implementation on a more timely basis.

Since Hydro One ceased to be an agency of the Crown following passage of the *Building Ontario Up Act* in June 2015, our Office no longer has the authority to do audit or follow-up work on Hydro One. As a result, we were only able to obtain minimal information to assess whether our recommendations in **Section 1.06—Hydro One—Management of Electricity Transmission and Distribution Assets** were implemented. Hydro One co-operated in providing some information, but unfortunately we were unable to obtain enough information to assess the implementation status of about 72% of our recommendations. We were able to confirm that about 11% of our recommended actions were fully implemented, 6% were in the process of being implemented, and another 11% would not be implemented.

Chapter 2—Follow-Up Reports on Special Reports

The Ministry of Health and Long-Term Care, Health Shared Services Ontario and the Community Care Access Centres (now part of the LHINs) provided us with information indicating that 46% of the recommended actions in our Special Report titled *Community Care Access Centres—Financial Operations and Service Delivery* had been implemented, and progress was being made to implement a further 52% of the recommended actions. Fully implemented recommendations include: finalizing of annual funding, following a common CEO compensation framework, changing rapid-response nurses' staffing schedules to provide coverage over the weekend, developing staff caseload benchmarks for direct-nursing services and developing performance indicators for these services.

Chapter 3—Follow-Up on Reports Issued by the Standing Committee on Public Accounts

Members of the Standing Committee on Public Accounts (Committee), which is composed of MPPs from all parties of the Legislature and supported by its Committee Clerk and legislative researchers, are dedicated to improving government programs and services delivered to—and funded by—the people of Ontario. In addition to holding hearings on chapters in our annual reports or our special reports, the Committee makes observations and issues recommendations in its own reports, which further promote positive change by the entities we audit.

Chapter 3 of this volume includes the follow-ups we have conducted on the Committee's recommendations covering seven reports it issued in 2016. We continue to see a positive response from government and agencies in the broader public sector to the Committee's work. One of the reports the Committee tabled in 2016 was *Hydro One—Management of Electricity Transmission and Distribution Assets*. Because we no longer have jurisdiction over Hydro One, we were unable to follow up on the Committee's 24 recommended actions. Excluding the impact of Hydro One, 89% of the Committee's recommended actions have either been fully implemented or are in the process of being implemented.

Chapter 4—Follow-Up on Audit Recommendations from 2012 to 2016

Follow-Up on Recommendations Issued by the Office of the Auditor General in 2012, 2013 and 2014

This chapter marks the first year that our Office has followed up on value-for-money audits beyond our initial two-year follow-up work for audit reports issued in 2012, 2013 and 2014. For those years, recommended actions were fully implemented for 20% of actions in 2012, 29% in 2013 and 40% in 2014. There has been steady improvement in the timeliness of implementing our recommended actions.

A key observation from our work this year when we revisited the recommended actions for 2012, 2013 and 2014 was that these actions are continuing to be fully implemented with the average implementation rate for each of those years now at about

50%. Although the average implementation rate for each year has improved since the two-year follow-ups were conducted, we would have expected to see a higher average implementation rate for the older recommended actions of 2012 and 2013.

This average implementation rate reflects some ministries and organizations that have implemented most recommendations, and some that have implemented considerably less. Community Care Access Centres, Ontario Power Generation, the Independent Electricity System Operator, the Ministry of Finance, the Financial Services Commission of Ontario, and the Ministry of Citizenship and Immigration have implemented 70% or more of our recommended actions. Less than 30% of recommended actions from 2012, 2013 and 2014 have been implemented by the Ministry of the Status of Women, the Ministry of Infrastructure, the Ministry of Advanced Education and Skills Development, the Ministry of Natural Resources and Forestry, the Ministry of Energy, and the Ministry of Children and Youth.

A significant number of the recommended actions that are still identified as being in the process of being implemented relate to recommendations to improve the public's access to care/services, the cost-effectiveness of services, the allocation of funding based on need, the quality of care of patients and monitoring/oversight in a number of service areas.

During this year's follow-up work, we noted that nearly 40% of the total recommended actions from 2012, 2013 and 2014 were in the process of being implemented. We will continue to follow up on their status of implementation next year.

Follow-Up on Recommendations Issued by the Standing Committee on Public Accounts in 2015 and Early 2016

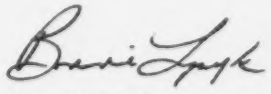
As of March 31, 2017, 65% of recommended actions issued by the Standing Committee on Public Accounts in its reports tabled between March 2015 and April 2016 have been fully implemented. While the Ministry of Infrastructure and Ontario Power Generation implemented all of the Committee's recommended actions, the Ministry of Community and Social Services and the Ministry of the Status of Women implemented fewer than 20% of its recommended actions.

Acknowledgements

The information contained in this volume of our *2017 Annual Report* is the result of the excellent work of the dedicated staff of my Office. On their behalf, I would like to thank the many people in the public and broader public sector who have assisted us in the completion of this year's follow-up reports. A special thank you goes to Richard Kennedy, Chief Internal Auditor and Assistant Deputy Minister, Ontario Internal Audit Division, for the contribution provided by staff from Internal Audit to **Chapter 4** of this volume.

We look forward to continuing to serve the Members of Provincial Parliament and through them, the citizens of Ontario.

Sincerely,



Bonnie Lysyk
Auditor General of Ontario

Chapter 1

Follow-Up Reports on *2015 Annual Report* Value-for-Money Audits

Summary

It is our practice to make specific recommendations in our value-for-money audit reports and ask ministries, agencies of the Crown and organizations in the broader public sector to provide a written response to each recommendation, which we include in our Annual Reports. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken. The ministries, agencies of the Crown and organizations in the broader public sector are responsible for implementing the recommendations made by our Office; our role is to independently express a conclusion on the progress that the audited entity made in implementing the actions contained in recommendations.

In each of the follow-up reports in this chapter, we provide background on the value-for-money audits reported on in Chapter 3 of our *2015 Annual Report*, and describe the status of actions that have been taken to address our recommendations since that time, as reported by management.

In conducting the follow-up work, our Office complies with the Canadian Standard on Quality Control 1 established by the Chartered Professional Accountants of Canada. The staff who conducted the follow-up work comply with the independence and other ethical requirements of the Rules of Professional Conduct issued by the Chartered Professional Accountants of Ontario.

We obtain a limited level of assurance in our follow-up work, which consists primarily of inquiries and discussions with the government, the relevant ministries or broader-public-sector entities; a review of their status reports; and a review of selected supporting documentation. In a few cases, the organization's internal auditors also assisted us with this work. The procedures performed in a limited assurance engagement vary in nature and timing from those of a reasonable assurance engagement, such as an audit, and do not extend as far. As this is not an audit, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively. The actions taken or planned may be more fully examined and reported on in future audits. Status reports will factor into our decisions on whether future audits should be conducted in these same areas.

As noted in **Figure 1**, progress has been made toward implementing over 70% of our recommended actions, including 33% that have been fully implemented. The ministries that have made the most progress toward fully implementing our recommended actions from 2015 include the Ministry of Community and Social Services on our audit of SAMS—Social Assistance Management System; the Provincial Controller's Office on our audit of Management of Contaminated Sites; and the Ministry of Health and Long-Term Care on our audit of LHINs—Local Health Integration Networks.

However, little or no progress has been made on 15% of our recommended actions. The Ministry of Education and Ministry of Transportation had made little progress on close to 40% of the recommended actions from our Student Transportation audit. The Ministry of Northern Development and Mines had made little or no progress on 36% of our recommended actions from the Mines and Minerals Program audit. For instance, little progress had been made toward our recommendation to review and update, where necessary, the Province's mining fees, taxes and royalty payments to ensure that Ontarians receive a fair share of the province's mineral resources. We made a similar recommendation in our *2005 Annual Report*.

Twenty-seven (9%) of our recommended actions are no longer applicable. This is primarily due to the changes made under the *Building Ontario Up Act, 2015* (Act), which removed our ability to conduct value-for-money audits at Hydro One or to follow up on the implementation status of recommendations from our audit conducted prior to the tabling of the Act on December 4, 2015. Since Hydro One was not required to participate in our follow-up work, we categorized these recommendations as no longer applicable.

A further 17 action items (5%) will not be implemented. More specific details are presented in the sections that follow **Figure 1**.

Figure 1: Overall Status of Implementation of Recommendations from Our *2015 Annual Report*

Prepared by the Office of the Auditor General of Ontario

Report Section	# of Recs	# of Actions Recommended	Status of Actions Recommended: Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
1.01 CCACs–Community Care Access Centres–Home Care Program	14	31	12	17	2	0	0
1.02 Child Protection Services–Children's Aid Societies	6	11	1.6	7	1.4	1	0
1.03 Child Protection Services Program–Ministry	9	13	2	9	2	0	0
1.04 Economic Development and Employment Programs	9	15	5.5	6.5	1	2	0
1.05 Electricity Power System Planning	5	16	7	8	0	1	0
1.06 Hydro One–Management of Electricity Transmission and Distribution Assets	17	36	4	2	0	4	26
1.07 Infrastructure Planning	6	9	4	5	0	0	0
1.08 LHINs–Local Health Integration Networks	20	37	17	18	2	0	0
1.09 Long-Term-Care Home Quality Inspection Program	13	30	10	12	8	0	0
1.10 Management of Contaminated Sites	7	12	8	2	2	0	0
1.11 Mines and Minerals Program	13	28	9	9	10	0	0
1.12 SAMS–Social Assistance Management System	5	12	8	4	0	0	0
1.13 Student Transportation	15	31	7	7	12	5	0
1.14 University Intellectual Property	15	27	6.3	8.3	7.3	4	1
1.15 Toward Better Accountability	5	6	2	4	0	0	0
Total	**159**	**314**	**103.4**	**118.8**	**47.8**	**17**	**27**
%	**100**	**100**	**33**	**38**	**15**	**5**	**9**

CCACs—Community Care Access Centres—Home Care Program

Follow-Up on VFM Section 3.01, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	4	2	2		
Recommendation 2	2	1	1		
Recommendation 3	3	2	1		
Recommendation 4	2	1		1	
Recommendation 5	2	1	1		
Recommendation 6	1		1		
Recommendation 7	3		3		
Recommendation 8	1		1		
Recommendation 9	3	1	1	1	
Recommendation 10	1	1			
Recommendation 11	1	1			
Recommendation 12	2	2			
Recommendation 13	1		1		
Recommendation 14	5		5		
Total	**31**	**12**	**17**	**2**	**0**
%	**100**	**39**	**55**	**6**	**0**

Overall Conclusion

Note: Ontario's Community Care Access Centres (CCACs) were absorbed by the Local Health Integration Networks (LHINs) between May and June 2017.

According to the information the Ministry of Health and Long-Term Care (Ministry), Health Shared Services Ontario and the CCACs (now part of the LHINs) provided to us, as of June 30, 2017, 39% of actions we recommended in our *2015 Annual Report* had been fully implemented. The Ministry,

Health Shared Services Ontario, and the CCACs have made progress in implementing an additional 55% of the recommendations.

The Ministry, Health Shared Services Ontario, and the CCACs have fully implemented recommendations relating to areas such as ensuring care co-ordinators address overdue assessments and reassessments on a timely basis, tracking the amount and type of caregiver support provided, and following up with discharged clients within the required time frames.

As well, the Ministry, Health Shared Services Ontario, and the CCACs were in the process of implementing recommendations relating to areas such as developing standard guidelines to prioritize clients for services, conducting a provincial audit to confirm that service providers are using the personal support worker wage increase funds for the purposes intended, and reviewing performance indicators for their relevance and effectiveness.

However, the CCACs had made little progress on centralizing wait lists for community support services and on tracking rescheduled and late home-care visits in addition to missed care. The Ministry has confirmed that LHINs will pursue these recommendations.

The status of actions taken on each of our recommendations is described in the report.

Background

At the time of our 2015 audit, Ontario's 14 Community Care Access Centres (CCACs) were not-for-profit provincial government organizations that helped people access home- and community-based health care and related social services outside a hospital setting. These services included nursing, personal support, physiotherapy and occupational therapy, for example. Each CCAC was overseen and funded by a Local Health Integration Network (LHIN).

Following our 2015 audit, Ontario passed the *Patients First Act* in December 2016. The Act expands the mandate of the LHINs as the single point of accountability for home and community care. At the time of our follow-up work, the Province was in the process of dissolving the CCACs and transferring their staff, resources and responsibilities to the LHINs.

Home care is publicly funded by the Ministry of Health and Long-Term Care (Ministry). To be eligible for home-care services, a person must be insured under the Ontario Health Insurance Plan. Referrals for home-care services can be made by hospitals, family physicians, or clients and/or their families.

Ontario's 14 Community Care Access Centres (CCACs) were responsible for providing home-care services to Ontarians who might otherwise need to stay in hospitals or long-term-care homes. CCACs assessed people to determine if their health needs qualified them for home-care services, and then developed care plans for those who qualified. CCACs contracted with about 160 private-sector, for-profit, or not-for-profit service providers to provide home-care services directly to clients.

In recent years, home-care clients have had increasingly complex medical and social-support needs because, since 2009, Ontario hospitals have been expected to discharge most patients who do not really need to be in acute-care settings. In the fiscal year 2016/17, 58% (60% in 2014/15) of home-care clients were aged 65 and over.

In the fiscal year 2016/17, Ontario spent $2.7 billion to provide home-care services to 760,000 clients. This represents a 56% increase in funding and 30% increase in the number of clients compared to 2008/09, the year before our last audit of home-care services in 2010.

From 2005/06 to 2016/17, overall CCAC funding (for home care and other services) had increased by 93% (73% from 2005/06 to 2014/15), but had remained a relatively constant 4% to 5% of overall provincial health spending. The Ministry had recognized the value of home and community

care, and it had issued several reports highlighting the importance of strengthening this sector.

Despite these positive efforts, some of the issues we raised in our 2010 audit of the home-care program still existed at the time of our 2015 audit. For example, clients still faced long wait times for personal-support services, and clients whose needs had been similarly assessed still received different levels of service depending on where in Ontario they lived.

In our *2015 Annual Report*, we found that a person assessed to receive services by one CCAC might not receive services at another. Several factors influenced this, such as a lack of provincial standards that specified what level of service is warranted for different levels of clients' needs, and the fact that per-client funding varied significantly among CCACs despite reforms to the funding formula that began in April 2012. As a result, to stay within budget, each CCAC exercised its own discretion on the types and levels of services it provided—thereby contributing to significant differences in admission criteria and service levels between CCACs. Furthermore, because CCACs could not run deficits, the time of year a client was referred, and their level of need, could also influence whether they received services or not. For instance, in our 2015 audit, we noted that at one CCAC, clients assessed after September 2014 as low to moderate needs with a client needs-assessment score of 10.5 and under would not even be added to the CCAC's wait list for services. Meanwhile, a client with the same score at the other two CCACs would have been placed on their respective wait lists for services.

Because the availability of community support services such as assisted living and respite care varied across the province (many community support service agencies were historically set up by volunteers to serve local needs; such agencies are not prevalent in rural and northern areas), some CCACs might be required to provide more services to their clients when no other agencies could provide the necessary additional support.

Our 2015 audit found that, until these overarching issues were addressed, clients in Ontario would continue to receive inequitable home-care services. Our specific observations included the following:

- The caseloads of CCAC workers who co-ordinated clients' care varied significantly from one CCAC to another, and within the same CCAC. In two of the three CCACs we visited, caseloads did not comply with guidelines developed by the Ontario Association of Community Care Access Centres. For example, one CCAC's care co-ordinators on average carried 30% larger-than-recommended caseloads for chronic clients.
- For budgetary reasons, CCACs were not able to provide personal support services to the maximum levels allowed by law. Care co-ordinators still, for the most part, assessed clients to receive up to 60 hours of personal support services per month versus 90 hours as permitted by law. Furthermore, Ontario's regulation was silent on the minimum amount of services that can be provided. As a result, there was no minimum service level requirement for personal support services that CCACs must provide to their clients—for instance, a specified minimum number of baths per week.
- At the three CCACs we visited (Central, North East, and Champlain), 65% of initial home-care assessments and 32% of reassessments for chronic and complex clients were not conducted within the required time frames in 2014/15. Some clients were not assessed or reassessed in almost one year, and some beyond a year.
- Not all care co-ordinators maintained their proficiency in, and some were not regularly tested on, the use of client assessment tools.
- CCACs did not consistently conduct site visits to ensure that the service providers with whom they had contracted were complying with contract requirements. For example, none of the three CCACs we visited had

verified that service providers accurately and completely reported incidents of missed visits.

Our recommendations included that the Ministry explore better ways to apply the funding reform formulas to address the funding inequities; develop standard guidelines for prioritizing clients for services, and monitor for compliance to those guidelines; assess the types of caregiver supports and initiatives available in other jurisdictions, and consider approaches to use in Ontario; require all health-service providers to upload complete client assessment information on a common system; and make more CCAC results on performance measures publicly available.

We also recommended that CCACs assess and reassess clients within the required time frames; require that all CCAC care co-ordinators comply with the minimum number of assessments per month and be tested on the use of the assessment tools each year, and monitor compliance with that requirement; reassess and, where necessary, revise current guidelines for care co-ordinator caseload sizes; and develop performance indicators and targets, and collect from contracted service providers relevant data that measure client outcomes.

We made 14 recommendations, consisting of 31 actions needed for improvement, and received commitments from the Ministry, the Ontario Association of Community Care Access Centres, and the three CCACs we visited during our audit that they would take action to address them.

Important Events Following Our 2015 Audit

In August 2016, the Ministry established a Levels of Care Expert Panel (Panel) to provide advice and recommendations on the development and implementation of a levels-of-care framework in Ontario. The Panel was co-chaired by a physician and a vice president of Health Quality Ontario (an agency created in 2010 to provide advice to the Minister of Health and Long-Term Care on the quality of health care), and a senior director at the former Toronto Central CCAC. The framework is intended to introduce common home- and community-care assessment and care planning practices, and is expected to have significant implications for care co-ordination. In June 2017, the Panel submitted a final report, "Thriving at Home: A Levels of Care Framework to Improve the Quality and Consistency of Home and Community Care for Ontarians," to the Ministry. The Ministry is currently reviewing the recommendations and expects to work with sector partners to plan for implementing the recommendations contained within this report through the summer and fall of 2017.

In December 2016, the *Patients First Act, 2016* was passed. The Act expands the mandate of LHINs as the single point of accountability for home and community care through the transfer of CCAC staff, resources and services to the LHINs. By streamlining the delivery of services and removing a layer of administration within the CCACs, the Ministry expects the health-care system to be more responsive to people's needs. The transfer of all 14 CCACs into LHINs took place in stages, region by region, in May and June 2017. As well, on March 1, 2017, Health Shared Services Ontario officially became operational. The organization, chaired by an associate deputy minister of the Ministry of Health and Long-Term Care and led by the former chief executive officer of the Ontario Association of Community Care Access Centres (Association), replaced the Ontario Association of Community Care Access Centres and two other former LHIN service organizations. It is tasked with supporting LHINs with health system integration and providing key shared service functions and supports to the LHINs.

Standing Committee on Public Accounts

On May 11, 2016, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2015 audit. In December 2016, the Committee tabled a report in the Legislature resulting from

this hearing. The Committee endorsed our findings and recommendations. The Committee made seven additional recommendations. The Ministry, Health Shared Services Ontario, and the CCACs reported back to the Committee in March 2017. The Committee's recommendations and follow-up on their recommendations are found in **Chapter 3, Section 3.01** of **Volume 1** of our *2015 Annual Report*.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and June 30, 2017. We obtained written representation from the Ministry of Health and Long-Term Care, Health Shared Services Ontario, and the three Local Health Integration Networks (Central, North East and Champlain) that have assumed the responsibilities of the former CCACs we visited, that effective September 1, 2017, they provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Assessment of Client and Family Needs Requires Improvement

Recommendation 1

To ensure that all home-care clients receive the most appropriate and timely care, Community Care Access Centres, in conjunction with the Ontario Association of Community Care Access Centres, should:

- *assess and reassess clients within the required time frames;*
  Status: In the process of being implemented by March 2019.

Details

In September 2014, the home- and community-care sector began a review of assessment and reassessment performance metrics and targets that were developed and implemented as part of the Client Care Model. All CCACs used this model (a population-based approach to segmenting client services) to help them identify different patient populations based on their assessed care needs to support care planning. The sector then put this work on hold pending the outcome of the work under way on developing a levels-of-care framework, which is expected to have significant implications for care co-ordination, including assessment and reassessment time frames. The Levels of Care Expert Panel submitted the framework to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. Following the implementation of the framework, the LHINs expect that care co-ordinators will assess and reassess clients within the required time frames by March 2019.

In the meantime, the individual CCACs that we visited in our 2015 audit had implemented initiatives to support and enhance the timeliness of assessments and reassessments. For example, one CCAC standardized scheduling practices for its community care co-ordinators by scheduling in advance a set amount of assessments and reassessments per week. Another CCAC had implemented standard procedures for conducting telephone reassessments for certain patient groups.

- *inform clients of the expected wait time for assessments and reassessments, especially when the required time frames will not be met;*
  Status: Fully implemented.

Details

At the time of our follow-up, the CCACs we visited in our 2015 audit indicated that they notify patients about the timing of their assessment upon completion of the intake process. At reassessment, clients are provided with a notice on the timing of the next reassessment. The team assistant communicates to the client any changes to scheduled assessments.

- *require managers to review reports on overdue assessments and reassessments and better ensure care co-ordinators act on addressing overdue files as soon as possible;*
  Status: Fully implemented.

Details

At the time of our follow-up, managers at the CCACs we visited in our 2015 audit told us they routinely receive and review reports on overdue assessments and reassessments to better ensure care co-ordinators address overdue files as soon as possible. For example, managers in one CCAC have begun using a report to review the status of assessments that are overdue by more than 18 months and follow up with care co-ordinators. At the time of our follow-up work, there were 62% fewer overdue assessments at this CCAC compared to the time of our 2015 audit, reflecting that the care co-ordinators had been addressing overdue files.

- *require that all CCAC care co-ordinators comply with the minimum number of assessments per month and be tested on the use of the assessment tools each year, and monitor compliance to that requirement.*
  Status: In the process of being implemented by December 2018.

Details

At the time of our 2015 audit, all CCACs had access to a provincial online testing system to test care co-ordinators' assessment competency on a regular basis. At the time of our follow-up, the CCACs that we visited in our 2015 audit indicated that the LHINs will deliver further assessment competency training as the home- and community-care sector transitions to an assessment tool called inter-Resident Assessment Instrument-Home Care in 2018. In the meantime, the CCACs had developed and implemented their own policies regarding the minimum number of assessments and competency testing for the care co-ordinators. For example, one CCAC provided its staff with targets for the minimum number of assessments they must complete per month and tests its staff bi-annually on their competency with assessment tools. Another CCAC conducted the assessment tool competency testing annually.

The levels-of-care framework was submitted to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. The LHINs planned to review the framework and implement any recommendations related to assessments, which may include the requirements for the minimum number of assessments care co-ordinators must complete per month and the frequency of competency testing, by December 2018.

Recommendation 2

To support caregivers so that home-care clients can receive care at home for as long as needed and to ensure the level of support to caregivers is sufficient,

- *the Ministry of Health and Long-Term Care, through the LHINs, should assess the types of caregiver supports and initiatives available in other jurisdictions, and consider approaches to use in Ontario;*
  Status: In the process of being implemented by March 2018.

Details

In March 2016, the Ministry conducted a gap analysis and jurisdictional scan of caregiver training and education programs. The report identified the following gaps: Ontario had many disease-specific, but insufficient general, caregiver training and education programs; skills-based caregiver training programs were lacking; Ontario had limited programs offered in languages other than English and for different cultures and groups; Ontario had limited programs targeted to those caring for frail seniors; and Ontario had no lead organization that co-ordinates caregiver supports.

To address these gaps, the Ministry expects to fund $4 million over two years beginning fall 2017 to support the development and delivery of caregiver training and education programs. As well,

the Ministry engaged a consultant in 2016 to assess the need for a lead organization to co-ordinate supports and resources for caregivers across the province. Based on the report by the consultant, the government announced in April 2017 its intention to launch a caregiver organization.

The Ministry also intends to develop a caregiver toolkit, and make it available to caregivers by March 2018.

- *Community Care Access Centres should track the amount and type of caregiver support provided, and assess whether supports provided are sufficient and appropriate.*
  Status: Fully implemented.

Details

The Ministry provided funding of $40 million in total in July 2016 and April 2017 to enhance in-home caregiver respite. The CCACs tracked the use of these funds, including information such as service hours, individuals served and amount spent. The CCACs reported this information back to the Ministry to inform the future direction of caregiver support programs.

Co-ordination of In-Home Services Could Be Better Managed

Recommendation 3

To ensure care co-ordinators are deployed optimally in accordance with caseload guidelines and to encourage equitable service levels across the province, the Community Care Access Centres, in conjunction with the Ontario Association of Community Care Access Centres, should:

- *seek to understand the reasons for caseload variances and determine how these can be addressed;*
  Status: Fully implemented.

Details

During this follow-up, the CCACs we visited in our 2015 audit indicated that they continually review and revise caseloads when balancing the needs of patients and the growing demand for care. However, caseload guidelines are only one of many factors that CCACs must take into consideration when reviewing caseload sizes and variances. Other factors that affect caseload sizes include how long a patient had been receiving home care, the specialized needs of different patient populations, geographic location and population density, availability of resources (including human resources and other local programs and services), and local health system issues (such as the need to reduce the number of patients who occupy hospital beds but could be treated elsewhere).

- *reassess and, where necessary, revise current provincial guidelines for care co-ordinator caseload sizes;*
  Status: In the process of being implemented by March 2019.

Details

At the time of our follow-up, the CCACs had put the review of care co-ordinator caseload sizes on hold pending the release of the levels-of-care framework. The Levels of Care Expert Panel submitted the framework to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. Following the implementation of the framework, the LHINs expect to review care co-ordinator caseload sizes by March 2019.

- *follow up with discharged clients within the required time frames.*
  Status: Fully implemented.

Details

At the time of this follow-up, the CCACs we visited in our 2015 audit had implemented various initiatives to follow up with clients discharged from home care. For example, one CCAC had implemented interactive voice response technology to follow up with discharged clients by telephone. The client can respond to questions, for example, about their current condition at home and whether

they would like further follow-up from the CCAC. Another CCAC contracted an independent company to conduct direct client calls.

Inadequate Information on Community Support Services Available

Recommendation 4

To effectively navigate clients to obtain necessary community-based services and to ensure current information on the availability of such services is easily accessible to all health service providers and clients, Community Care Access Centres should:

- *track all referrals made to community support service agencies;*
  Status: Fully implemented.

Details

In our 2015 audit, we found different CCACs maintained different statistics and data on referrals to community support services. Since our 2015 audit, the CCACs and the LHINs had made changes to the provincial home-care information system. The system now includes a referral function that allows exchange of patient referral information with, and tracking the status of patient referrals to, over 500 community support service agencies. In addition, in March 2016, the CCACs streamlined electronic referral packages for personal support services for low-needs patients, respite/day programs, and assisted living to ensure consistent referral information is provided to the receiving agencies.

- *in conjunction with their funding Local Health Integration Networks, consider developing centralized wait-list information for all community support services.*
  Status: Little or no progress.

Details

At the time of this follow-up, the LHINs had not expanded the centralized wait-list information to include all community-based support services. The former CCACs (now LHINs) had regulatory authority to manage wait lists for some community support services (for example, respite/day programs, assisted living and supportive housing), but not for others, such as homemaking, caregiver support and transportation services. LHINs indicated that centralizing wait lists for all services would require broader local planning discussions between the home- and community-care function within the LHINs and community support service agencies. At the time of our follow-up, the LHINs indicated that the passage of the *Patients First Act* and the requirement to integrate services within sub-regions present an opportunity to further explore how centralized wait lists could be implemented.

Recommendation 5

To increase sharing of assessment information and to avoid duplication of effort, the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, should:

- *require all health-service providers to upload complete assessment information, including assessor's notes, on a common system;*
  Status: In the process of being implemented by March 2019.

Details

We noted in our 2015 audit that the Ministry introduced an online system called Integrated Assessment Record that enables agencies to share client assessment information with each other. At that time, the Ministry required only CCACs and long-term-care homes to upload assessment information to the system, but did not extend that requirement to community support service agencies, which uploaded assessment information to the system on a voluntary basis. These requirements still had not changed at the time of the follow-up. The Ministry expected to support expanding the use of this system (which could include mandating community support service agencies to upload

client assessments to the system) over the 2017/18 and 2018/19 fiscal years, following a review of the levels-of-care framework.

- *establish a feature in the system to alert staff working in CCACs and community support service agencies when a client's assessment record is already in that common system.*
  Status: Fully implemented.

Details

In our 2015 audit, CCAC staff informed us that neither the Integrated Assessment Record system nor the provincial home-care information system had a feature that alerts care co-ordinators when a client's information has already been collected by another agency and is on the system, which would often lead to a duplication of efforts as they collect and upload clients' assessment records again. In March 2017, the Integrated Assessment Record system was updated so that staff working in CCACs and community support service agencies can be notified when the system receives new or updated assessments for clients in their care.

Access to Home-Care Services Is Inconsistent and Dependent on Funding Levels

Recommendation 6

To ensure CCACs receive funding that enables the provision of equitable service levels across Ontario, the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks and the Community Care Access Centres, should explore better ways to apply the funding reform formulas to address the funding inequities.

Status: In the process of being implemented by June 2018.

Details

The Ministry has started using population-health data in allocating base funding increases of $100 million in 2016/17 and $80 million in 2017/18, and another $20 million in 2017/18 for services for high-needs clients. In making these funding increases, the Ministry considered the number of clients with complex needs and the length of time they received services at each CCAC. The Ministry indicated that it will continue to allocate and revise home-care funding in coming years in order to advance and achieve funding equity.

Recommendation 7

To ensure Ontarians receive equitable and appropriate levels of home-care services, the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks and the Community Care Access Centres (CCACs), should:

- *develop standard guidelines for prioritizing clients for services, and monitor for compliance to those guidelines;*
  Status: In the process of being implemented by December 2018.

Details

The levels-of-care framework was submitted to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. The framework will offer guidance to the LHINs in providing similar levels of service to clients with similar needs, regardless of where they live, based on provincial care policies and processes. At the time of the follow-up, the LHINs have committed to reviewing the recommendations of the framework and developing the standard guidelines and monitoring for compliance by December 2018.

In addition, at the time of the follow-up, the LHINs were developing a provincially consistent approach to manage and prioritize patients on a wait list for personal support services. The LHINs expect this work to be completed in fall 2017.

- *evaluate ways to provide more service hours closer to the regulated maximum limits for those assessed as requiring such services;*
  Status: In the process of being implemented by December 2018.

Details

The levels-of-care framework was submitted to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. The framework would introduce common home- and community-care standards across the province, and have common standards for who will be eligible for home care and how services will be allocated across the province. At the time of the follow-up, the LHINs committed to working with the Ministry toward implementing the recommendations of the framework, which is expected to set out expectations related to service levels, by December 2018.

- *consider establishing a minimum level of services that clients can expect to receive from CCACs.*
  Status: In the process of being implemented by December 2018.

Details

In our follow-up, the CCACs we visited in our 2015 audit indicated that they were awaiting the release of the levels-of-care framework to inform their next steps. They also indicated that their compliance with implementing standard service levels will depend on equitable funding across CCACs. The levels-of-care framework was submitted to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. The LHINs have committed to reviewing the recommendations of the framework and implementing any recommendations related to level of services, by December 2018.

Recommendation 8

To enable Community Care Access Centres (CCACs) to focus their efforts on clients with higher levels of need, the Ministry of Health and Long-Term Care, in collaboration with the Local Health Integration Networks and the CCACs, should expedite the process of transferring and diverting low-needs clients needing personal support services from CCACs to community support service agencies.

Status: In the process of being implemented by December 2018.

Details

As of February 2016, four of the Province's 14 LHINs had provided funds to designated community support service agencies to deliver personal support services to low-needs clients, thereby improving access and allowing CCACs to focus on clients with more complex care needs. These LHINs had identified and shared lessons learned and approaches with the remaining LHINs.

At the time of this follow-up, the remaining 10 LHINs had also started to transfer their low-needs clients to community support service agencies, and were implementing standards, guidelines and performance measures to ensure co-ordinated access and consistent care for clients. The remaining LHINs expect to complete the transition by December 2018.

Oversight of Contracted Service Providers Needs Improvement

Recommendation 9

To help ensure that service providers provide the best-quality home-care services to clients, Community Care Access Centres should:

- *develop performance indicators and targets and collect relevant data that measure client outcomes;*
  Status: In the process of being implemented by December 2018.

Details

All CCACs participated in the work being led by Health Quality Ontario to develop quality standards for the care and rehabilitation of hip fractures. As well, they worked with the Rehabilitative Care Alliance (a province-wide collaborative established in April 2013 by all 14 LHINs to support the improvement of rehabilitative services) to develop rehabilitative care best-practice frameworks for patients with hip fractures and primary hip and knee

replacement. The CCACs (now LHINs) also helped to develop indicators to measure patient outcomes.

In addition, the CCACs (now LHINs) had participated in the work being led by Health Quality Ontario on developing wound care quality standards that would apply across the health-care system. As part of that work, LHINs have begun reviewing performance indicators for the service providers with whom they contract. The LHINs expect to implement these quality standards and the associated indicators by December 2018.

- *reassess the use of "missed care" versus tracking all possible scenarios of missed, rescheduled and late visits;*
  Status: Little or no progress.

Details

In January 2015, CCACs revised the definition of "missed care" and began collecting provincial data to help set provincial targets for "missed care." This new definition does not include any visits where the service provider arrived late or rescheduled a visit without notifying the patient ahead of time. Instead, the CCACs measure those incidents by asking related questions in a client satisfaction survey. In March 2016, CCACs updated the agreement with service providers to include both the revised definition and the targets for "missed care." The CCACs planned to begin reporting on this indicator under the revised methodology in the third quarter of 2017/18. These changes have not addressed all aspects of missed care.

- *consistently apply appropriate corrective actions to service providers that perform below expectation.*
  Status: Fully implemented.

Details

At the time of our 2015 audit, the CCACs we visited indicated that they monitor the performance of their service providers against a set of performance standards that are part of all service provider contracts. Where a service provider does not achieve a standard, a CCAC may issue a quality improvement notice, which requires the service provider to develop an action plan to improve performance. If performance issues are not resolved, CCACs can decrease the amount of service volume allocated to a poorly performing provider or they can terminate a contract. In the fiscal year 2016/17, some CCACs had issued quality-improvement notices to service providers, but these CCACs did not decrease service volumes or terminate any contracts.

Recommendation 10

To ensure that the client satisfaction survey results can be used to effectively monitor the performance of the service providers, the Ontario Association of Community Care Access Centres, in conjunction with the Community Care Access Centres, should review and revise, where necessary, the client satisfaction survey methodology to increase the accuracy and reliability of survey responses.

Status: Fully implemented.

Details

All CCACs made the following changes to the client satisfaction survey methodology to improve the accuracy and reliability of survey responses:

- updated survey inclusion/exclusion criteria to optimize responses and sample sizes, which improved data reliability (for example, the survey now excludes any patient who has already completed a survey in the last 12 months and any patient who has refused to participate in a survey in the last nine months);
- updated the survey sampling methodology and calling protocol to increase the likelihood of receiving responses to the survey (for example, the survey now pulls samples that contain only primary contact information, which helps ensure that the interviewer contacts the most appropriate caregiver if the patient is unable to be interviewed; as well, the interviewer can now contact up to three caregivers, rather than one, to increase the likelihood of getting a response to a survey); and

- added modules in the client satisfaction survey for clinic patients and patients transitioning from hospitals to home care to increase the accuracy of information for specific services/clients.

Recommendation 11

To ensure that information submitted by service providers is complete, accurate and reflects their performance, the Community Care Access Centres should conduct routine site visits to monitor quality of care and verify the accuracy and completeness of information reported to CCACs.

Status: Fully implemented.

Details

At the time of our follow-up, the CCACs we visited in our 2015 audit indicated that their staff conducts audits and/or site visits to monitor the quality of care provided by service providers in clients' homes. For example, one CCAC began visiting service providers in 2015 with a focus on patient safety, and intended to focus on contractual obligations related to performance and quality improvement in 2017/18. Another CCAC in 2015/16 and 2016/17 completed both desk audits and on-site audits of its service providers to investigate specific quality-improvement opportunities.

Recommendation 12

To ensure that complaints brought to the attention of either the Community Care Access Centres or the service providers are appropriately addressed on a timely basis, the Community Care Access Centres should:

- *prioritize the complaints they receive by level of risk and respond to the most urgent ones first;*
  Status: Fully implemented.

Details

At the time of our follow-up, each of the CCACs we visited in our 2015 audit had established a process to document, prioritize and respond to the complaints it receives. For example, one CCAC indicated that it acknowledged complaints within two business days. This CCAC also instituted a daily meeting of care co-ordinators to review new complaints and to provide updates on investigations into active complaints. Another CCAC established a policy of prioritizing responses to complaints. This CCAC prioritized complaints based on their impact on the client, which was categorized as high, medium or low, and responded to clients in the order of high impact to low impact.

- *require service providers to identify common areas of concerns as reported by their complainants, and analyze this information for further action.*
  Status: Fully implemented.

Details

In our 2015 audit, we noted that neither the Ministry nor the LHINs required CCACs to report the nature of local complaints, and only one of the three CCACs we visited reported the nature of complaints to its LHIN. At the time of this follow-up, all three CCACs indicated that every quarter, service providers report on the number and nature of complaints, areas of concern, and the actions taken to address the complaints. For example, one CCAC required service providers to document client complaints in a system; the CCAC then analyzed this information to identify opportunities for quality or performance improvement. Another CCAC launched an information report in April 2017 to record high-risk events related to infusion and medication errors.

Recommendation 13

To ensure that the funds provided to recruit and retain personal support workers are spent for the purposes intended, the Community Care Access Centres should conduct inspections of service provider records, on a random basis, and share the results with the Ministry of Health and Long-Term Care.

Status: In the process of being implemented by June 2018.

Details

At the time of the 2015 audit, we noted that the Ministry only required contracted service providers to annually self-declare that they had complied with the personal support worker wage increase, but did not have any audit process to ensure that the funds it provided were spent to recruit and retain personal support workers. At the time of this follow-up, this was still the case. The Ministry indicated that service providers attest to their compliance with the Personal Support Worker Wage Enhancement Directive and Addenda through a certificate of compliance; this attestation required the signature of the highest-ranking officer in the organization and confirmation by the organization's board chair. The CCACs (now LHINs) tracked the receipt of these attestations over the course of the three-year initiative and brought to the Ministry's attention issues of non-compliance, which were subsequently resolved. The Ministry indicated that it will collaborate with the 14 LHINs to conduct a provincial audit by June 2018 to ensure funds provided were spent to recruit and retain personal support workers.

CCACs Measured against Different Targets for Common Areas

Recommendation 14

To ensure that critical operational and financial areas are consistently assessed and are transparent to the public, the Ministry of Health and Long-Term Care, in collaboration with the Local Health Integration Networks, the Community Care Access Centres, and Health Quality Ontario, where applicable, should:

- *review and assess whether all the indicators collected continue to be relevant for determining efficient and effective performance of home care;*
  Status: In the process of being implemented by September 2017.

Details

Beginning in spring 2016, the home-care sector participated in the provincial Home and Community Care Indicators Review led by Health Quality Ontario, which assessed the home-care indicators that Health Quality Ontario currently reports to the public. The review was completed in March 2017. At the time of our follow-up, the Ministry was examining the outcome of the indicators review and considering improvements to the current methodology, which it expected to complete by September 2017. The Ministry also plans to work with Health Quality Ontario to identify new patient experience indicators that are most meaningful to patients, caregivers and the public.

- *make more CCAC results on performance measures publicly available;*
  Status: In the process of being implemented by December 2017.

Details

At the time of our 2015 audit, CCACs had publicly reported their performance against targets in the areas of finances, volumes, services, quality improvement and cost/patient served. At the time of our follow-up, the Ministry was assessing the outcome of the Home and Community Care Indicators Review, which it would use to determine the future public reporting of performance measures.

- *consider establishing targets for all performance areas where needed;*
  Status: In the process of being implemented by December 2018.

Details

At the time of this follow-up, the CCACs and the Ministry were working with Health Quality Ontario to review the indicators for home-care services at the provincial level, the LHIN level and the service-provider level. It then plans to establish, by December 2018, service targets for these new indicators to track progress in improving consistency of care.

- *develop more outcome-based indicators to measure against overall CCAC performance;*
  Status: In the process of being implemented by December 2018.

Details

At the time of this follow-up, the home-care sector was working with Health Quality Ontario on the development of quality standards for the care and rehabilitation of hip fractures. The development of the quality standard on hip fracture and associated recommendations for adoption is in the final stages of approval with Health Quality Ontario and will be released in fall 2017. It also worked with the Rehabilitative Care Alliance on the development of rehabilitative care best-practice frameworks for patients with hip fractures and primary hip and knee replacement. The home-care sector was also developing indicators to measure CCAC performance in this area. The home-care sector was establishing a provincial rehabilitation community of practice—a group of professionals who share their intelligence and learning concerning rehabilitation services—to support the sector in implementing the standards once finalized. The LHINs will continue to develop more outcome-based indicators on an ongoing basis, but expect most of this work to be completed by December 2018.

- *make hospital readmission data available to Community Care Access Centres on a more timely basis.*
  Status: In process of being implemented by September 2017.

Details

In May 2017, the Ministry provided hospital data to Health Shared Services Ontario. At the time of this follow-up, the two parties were working together to ensure data quality.

Ministry of Children and Youth Services

Child Protection Services—Children's Aid Societies

Follow-Up on VFM Section 3.02, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	4		4		
Recommendation 2	1	4/7		3/7	
Recommendation 3	2		1	1	
Recommendation 4	2		1		1
Recommendation 5	1		1		
Recommendation 6	1	1			
Total	**11**	**1 4/7**	**7**	**1 3/7**	**1**
%	**100**	**14**	**64**	**13**	**9**

Overall Conclusion

According to information that the Ministry of Children and Youth Services (Ministry), the Ontario Association of Children's Aid Societies (Association), and the seven Children's Aid Societies (Societies) that we visited during our 2015 audit provided to us, as of June 7, 2017, only one of the actions we recommended in our *2015 Annual Report* has been fully implemented. The Association has developed various governance aids for Societies to ensure that funds are spent appropriately. The board of directors of all but one of the seven Societies have specific finance committees that regularly review financial information to ensure that financial activities are in compliance with broader-public-sector requirements. The other Society's governance policies allow for an ad hoc finance committee to be struck when needed, for example, to select an auditor and to review and approve the Society's audited financial statements. In addition, the Society has added a member with financial background to its board to review financial matters related to the Society's operations.

The Ministry, the Association and the Societies have made progress in implementing seven of

the recommended actions. For example, the Ministry has required each Society to submit quality improvement plans that capture compliance rates and outline the actions it will take to improve compliance with child protection standards and legislated requirements, including those identified in our audit. In addition, the Ministry has made improvements to the new province-wide information system that will enable Societies to track their compliance with history-check requirements on individuals involved with children in their care. All of the seven Societies we audited in 2015 have also either established or updated their quality assurance policies to improve their compliance with protection standards. Five of the seven Societies we audited have implemented strategies to ensure cases are not closed prematurely. However, compliance rates reported by the seven Societies we audited indicate that more work is needed to ensure that children and youth who need protection receive the services they need in accordance with legislative, regulatory and program requirements. The Ministry has also committed to explore caseloads and their impact on consistency of child protection services across the province.

The Ministry has made little progress in implementing one recommended action, to evaluate the effectiveness of providing continued care and supports for youth that are not contingent on the youth demonstrating progress toward meeting their goals. We were advised that the remaining recommended action from our 2015 audit—to analyze the impact of variable services on quality of child protection services across the province—will not be implemented because the Ministry believes the Societies are responsible for decisions regarding staffing and services to be provided. We continue to recommend that these actions be taken because we believe these are significant recommendations that, if implemented, would help ensure that children and youth receive the service they need as required under legislation and regulation.

The status of actions taken on each of our recommendations is described in the report.

Background

Child protection services in Ontario are governed by the *Child and Family Services Act* (Act), the purpose of which is to promote the best interests, protection and well-being of children. The Ministry of Children and Youth Services (Ministry) administers the Child Protection Services Program, and contracts with 48 local not-for-profit Children's Aid Societies (Societies) that deliver child protection services throughout Ontario (47 at the time of our 2015 audit). All but three of the 48 Societies are members of, and are represented by, the Ontario Association of Children's Aid Societies (Association). The Association gathers information about emerging trends and best practices in child protection, provides training for Society caseworkers, and advocates on behalf of its members.

Ministry transfer payments to Societies to fund their expenditures were $1.48 billion in the 2016/17 fiscal year ($1.47 billion in 2014/15). One-third of Societies' expenditures were for services for children who had been removed from their homes and placed in the care of Societies in foster, group or relatives' homes (about 40% at the time of our 2015 audit). Over the last five fiscal years, the number of children in the care of Societies has declined by more than 18% (10% at the time of our 2015 audit).

Societies are independent legal entities, each governed by an independent volunteer board of directors. By law, each Society is required to provide all mandatory child protection services to all eligible children. In other words, waiting lists are not an option for child protection services. Societies initiate a child protection investigation for any reported concern where there are reasonable and probable grounds that a child may need protection from abuse or mistreatment.

Overall, our audit found that there were differences in the levels of service and support provided by Societies, and that workers at the

various Societies had vastly different caseloads. The average number of family service cases per worker ranged from eight to 32 per month. These differences could affect the consistency of care and support received by children and families across the province.

Our significant observations include the following:

- Societies may be closing child protection cases too soon. In more than half the child protection cases we reviewed that were subsequently reopened, the circumstances and risk factors that were responsible for the reopening of the case had been present when the case was initially closed.
- Societies did not investigate child protection cases on a timely basis and did not always complete all required investigative steps. None of the child protection investigations we reviewed at the Societies we visited were completed within the required 30 days of the Society receiving the report of child protection concerns. On average, the investigations were completed more than seven months after the Society's receipt of the report. As well, safety assessments to identify immediate threats to the child were either not conducted on time or not conducted at all.
- Societies did not always conduct timely home visits and service plan reviews in cases involving children still in the care of their families. In more than half the child protection cases we reviewed, caseworkers visited the children and their families at home only once every three months, instead of every month as required by protection standards.
- Societies did not always complete plans of care—designed to address a child's health, education, and emotional and behavioural development—on a timely basis.
- Societies did not always do child protection history checks on people involved with children, increasing the risk that children are left in the care of people with histories of domestic violence or child abuse.
- The Continued Care and Supports for Youth (CCSY) program was not achieving its objective of preparing youth for transition out of care. In almost half the child protection cases we reviewed, there was no evidence the youths were involved in reasonable efforts to prepare for independent living and adulthood.

We recommended that Societies meet all legislative, regulatory and program requirements when delivering protection services; ensure that protection cases are not closed prematurely; assist youth to transition to independent living and adulthood; develop standard caseload benchmarks; and ensure that funding is used to appropriately to provide direct services to children and families while identifying opportunities to improve service delivery.

Our report contained six recommendations, consisting of 11 actions, to address our audit findings. We received commitments from the Ministry, the Association, and the Societies that they would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and June 7, 2017. We obtained written representation from the Ministry of Children and Youth Services (Ministry), the Ontario Association of Children's Aid Societies (Association), and the seven Children's Aid Societies that we visited during our 2015 audit (Toronto, Hamilton, Durham, Kingston, Sudbury, Muskoka and Waterloo) that, effective September 1, 2017, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Societies Did Not Always Conduct Child Protection History Checks on Individuals Involved with Children

Recommendation 1

To ensure that children and youth who need protection receive timely, consistent and appropriate care and supports, Children's Aid Societies should ensure that they meet all legislative, regulatory and program requirements in the following areas:

- *conducting child protection history checks on all individuals involved with the child upon receipt of reports of child protection concerns;*
  Status: In the process of being fully implemented by the seven Societies we audited by June 2019.

Details

Upon receiving a report of a child protection concern, Ministry-established protection standards require that Societies must check their internal records and the provincial database of all Societies' records to determine whether the individuals involved have had previous contact with any Society. In addition, if the report alleges that the child has suffered or may be suffering abuse, the Act requires that the Society check the Ontario Child Abuse Register (Register) for any history of abuse involving the child, the family or the alleged abuser.

In our 2015 audit, we noted that Societies did not conduct these history checks in some of the child protection reports we reviewed. In addition, in more than half the reports where a child had suffered abuse or was alleged to have suffered abuse, our review found that Societies did not check the Register as required.

In response to our recommendation, in December 2015 the Ministry sent a letter to all Societies, reminding them of the legislated requirement to check the Child Abuse Register when they receive reports alleging that a child has suffered abuse. However, the Ministry did not follow up with the Societies—nor has it requested Societies to report back—to confirm that they have been performing the required history checks.

But, in April 2017, the Ministry added a useful function to the Child Protection Information Network (CPIN)—the province-wide information system that Societies are currently implementing in scheduled phases—to enable Societies to track their own compliance with history-check requirements. One purpose of the CPIN functionality that was added in April 2017 is to prevent a protection case from moving forward if the required history checks are not completed. Three of the seven Societies we visited during our 2015 audit have implemented CPIN, although one informed us that it has not been able to produce reports due to technical difficulties. The two Societies that were able to generate reports from CPIN had compliance rates of 98% and 100% respectively since our 2015 audit. The third Society manually checked for compliance with the requirement for a Child Abuse Register check and found that its compliance rate decreased from 100% to 72% between February and December 2016.

Of the other four Societies that have not implemented CPIN, two have been monitoring their compliance with protection standards, either monthly or biennially, using either their current case management system or their manual review of a sample of protection cases. Their results note compliance rates ranging from 87% to 100% since 2015.

In addition to tracking compliance through CPIN, all of the seven Societies have also either established quality assurance committees or updated their internal policies in order to improve compliance with history-check requirements. The Ministry estimates that CPIN will be fully implemented across the province by June 2019.

Societies Did Not Complete Child Protection Investigations on a Timely Basis

- *conducting child protection investigations within the required response time;*
  Status: In the process of being fully implemented by the seven Societies we audited by December 2020.

Details

Ministry standards require Societies to conduct a child protection investigation for any reported concern where the Societies' history checks and initial assessment of a reported child protection concern indicate that there are reasonable and probable grounds that a child may need protection. The investigation—intended to assess immediate and long-term risks to the child and determine if the child needs protection services—must begin within 12 hours or seven days, depending on the Societies' initial assessment of the level of threat to the child's safety.

Our 2015 audit found that about one-quarter of the investigations we reviewed were not started within the required response time. On average, these investigations began five days after the required time.

In response to our audit, the Ministry instructed all Societies to submit quality improvement plans by February 2016. The plans were to identify the actions a Society plans to take to address the audit findings. Societies were subsequently required to submit quarterly progress reports beginning in May 2016. The progress reports include each Society's compliance rate for key protection standards, status of planned actions described in the quality improvement plan, and any additional actions that the Society plans to undertake for each protection standard where its compliance rate is less than 100%. Compliance rates must be calculated based on a review of a sample size large enough to make statistically significant conclusions, which may require hundreds of protection cases to be sampled.

Based on the latest progress reports (submitted in March 2017), at the time of this follow-up report, compliance rates varied greatly among the seven Societies. For example, in cases where standards required an investigation to begin within 12 hours of the Society receiving a report of a child protection concern, compliance rates ranged from 77% to 100% (median of 93%). In protection cases where standards required an investigation within 48 hours of the Society receiving a report, compliance rates ranged from 50% to 100% (median of 71%). Finally, in protection cases where standards required an investigation to begin within seven days of the Society receiving a report, compliance rates ranged from 68% to 99% (median of 93%). Considering both the implementation of CPIN and the business processes that need to be put in place, the Societies not yet fully compliant estimate that they will achieve 100% compliance between December 2017 and December 2020.

Societies Did Not Always Conduct Timely Home Visits and Service Plan Reviews in Cases Involving Children Still in the Care of Their Family

- *conducting home visits and Service Plan reviews in cases involving children still in the care of their family within required time frames;*
  Status: In the process of being fully implemented by the seven Societies we audited by December 2020.

Details

When a Society's investigation has determined that a child is in need of protection but does not need to be taken into the Society's care, the child and family receive the Society's services while the child remains at home. Ministry protection standards require Society caseworkers to visit the child's home once per month. In addition, Societies must develop a service plan—outlining the goals for the child's safety and well-being—within one month of completing the investigation. Society caseworkers must review the service plan with the family every six months while the child and family are receiving child protection services.

Our 2015 audit found that although caseworkers made attempts to make scheduled and unannounced home visits, home visits did not occur every month in more than half the cases we reviewed. In addition, in almost two-thirds of the cases we reviewed, the Societies had not developed

a service plan within the first month of service as *required*. In more than half the cases we reviewed, caseworkers did not review the service plans every six months, including some instances where caseworkers did not review the service plans at all.

Societies' quarterly progress reports on their quality improvement plans include their compliance rates for home visits and service plan completion and reviews. Similar to the compliance rates for conducting investigations, compliance rates for home visits and service plan reviews also varied greatly among the seven Societies we had previously visited. For example, the March 2017 progress reports indicated that compliance rates for conducting monthly home visits ranged from 28% to 75% (median of 59%). In addition, compliance rates for completing service plans within one month of the investigation ranged from 15% to 83% (median of 68%). Finally, compliance rates for service plan reviews ranged from 44% to 64% (median of 57%). The seven Societies we audited plan to have the appropriate processes in place to achieve 100% compliance by September 2018 to December 2020.

Societies Did Not Always Conduct Timely Visits and Reviews of Plans of Care in Cases Involving Children in Societies' Care

- *conducting Plan of Care reviews in cases involving children in the care of Societies within required time frames.*

  Status: In the process of being fully implemented by the seven Societies we audited by March 2020.

Details

When a Society's investigation has determined that the child must be removed from home, the child is taken into the Society's care and may be placed with relatives, in a foster home, or in a group home. In these cases, Society caseworkers must prepare a plan of care—designed to meet the child's needs—within 30 days of a child being placed in the foster, group or relative's home. Caseworkers must review the plan of care with the child and family within three months of the placement, and every six months thereafter, until the child is discharged from the Society's care or turns 18.

At the time of our audit in 2015, we found that in about one-quarter of cases we reviewed the Societies did not develop plans of care within 30 days of the child's placement in a foster or group home. In addition, in over 10% of cases we reviewed, caseworkers did not review the plans of care within the required time frames.

Societies' quarterly progress reports on their quality improvement plans include their compliance rates for plan of care completion. Compliance rates for completing plans of care also varied greatly among the seven Societies we had visited. For example, the March 2017 progress reports indicated that compliance rates for completing plans of care within one month of placement ranged from 46% to 100% (median of 87%). Societies with low compliance rates plan to achieve 100% compliance by September 2018 to March 2020.

Societies May Be Closing Child Protection Cases Too Soon

Recommendation 2

To ensure that protection cases are not closed prematurely, Children's Aid Societies should ensure that risk factors that are present are appropriately addressed before they close these cases. As well, an annual review and analysis of all reopened cases should be performed to determine if any corrective action is necessary to minimize premature case closures.

Status: Four Societies have fully implemented this recommendation. Three Societies have made little or no progress on this recommendation.

Details

Societies are supposed to close child protection cases—involving children receiving protection services while remaining with their families as well

as children in the Societies' care—only when protection concerns have been resolved and the child is no longer at risk. During our 2015 audit, our review of a sample of child protection cases that had been reopened after initially being closed found that in almost half of the reopened cases, risk factors were still present or not completely addressed at the time the case was initially closed.

Six of the seven Societies participated in a province-wide study to determine why some children end up requiring protection services from Societies again after their protection cases have been closed. The study, led by the University of Toronto, found that chronic issues, such as neglect, were the most common reason those children required further protection. The study also found that the same issues or risk factors, and not the emergence of new issues or risks, cause those children to require protection services again. As a result of this study, in March and April 2017, the Association provided information to all Societies regarding risk factors associated with reopened cases. The Association also provided a framework to help Societies identify strategies to ensure risk factors associated with reopened cases are addressed before they close child protection cases. All seven Societies have completed the framework, and five have implemented strategies such as providing guidance and reference tools for staff when closing child protection cases. The other two Societies stated that they will need to collect more information to determine the appropriate strategy.

The March 2017 progress reports for six of the seven Societies reported a decrease in reopen rates, from an average of 20% to 17%, between 2010/11 and 2014/15. The seventh Society could not report its reopen rates due to limitations in its previous case management system. The Society has since implemented CPIN, which will allow it to track and report its reopen rates.

Since our audit, four of the seven Societies have reviewed a sample of reopened protection cases to determine the reasons for the reopening. The reviews found that up to half of the protection cases had the same risks, such as emotional harm or exposure to conflict, at reopening as at the time the protection case was created. One of these Societies found that one-fifth of the cases it reviewed were potentially closed prematurely. Another conducted a one-time detailed analysis to determine which risks were most likely to be present at reopening. This Society also reviewed high-risk protection cases to determine whether the reasons for closure were documented, and found that 40% of high-risk protection cases did not include an explanation for the closure. The Societies indicated that they plan to continue monitoring these risk factors to determine where improvements are necessary to further decrease the reopen rates.

Of the three Societies that have not analyzed reopened cases, one has stated it could not perform the analysis due to CPIN limitations, and expects it will be able to perform such an analysis by December 2020. One Society has developed a case-analysis template, which staff should use to ensure protection cases are not closed prematurely, and plans to review the implementation of this template in December 2017. The third has begun analysis of the information provided by the province-wide study in June 2017.

Plans to Help Youth Prepare for Independent Living Are Not Always in Place or Monitored by Societies

Recommendation 3

To help improve the Continued Care and Support for Youth (CCSY) program's effectiveness in assisting youth to transition to independent living and adulthood:

- *Children's Aid Societies should ensure that signed agreements are in place, and Youth Plans are created, reviewed and updated accordingly;*
  Status: In the process of being fully implemented by the seven Societies we audited by December 2018.

Details

The Continued Care and Support for Youth (CCSY) program is meant to provide financial and non-financial support to youth (18 to 20 years old inclusive) to help them transition to independent living. Ministry policies require Societies to enter into an agreement with the youth receiving supports and develop a youth plan to establish goals based on the youth's strengths and needs within 30 days of the agreement being finalized. Society caseworkers must check in every three months to discuss the youth's progress toward meeting those goals.

In some of the cases we reviewed during our 2015 audit, we found that the agreements were either not in place or not signed by all parties (that is, the youth, caseworker and the Society's executive director). We also found that in about one-quarter of the cases we reviewed, the youth plan was either not developed within 30 days of the agreement being finalized, or not created at all. In addition, in almost half of the cases we reviewed, the Society caseworker did not review the youth plan with the youth every three months as required.

Five of the seven Societies we visited have monitored their compliance with Ministry policies through their case management systems or audits. Compliance rates ranged from 38% to 98% between 2015 and 2017. The Societies that have been monitoring their compliance advised us that compliance with this requirement is contingent on external factors. For example, the Society cannot withhold supports from youth who refuse to sign the youth plan. The two Societies that do not yet track their compliance with this requirement expect to be able to do so by December 2017 to December 2018.

In January 2017, one of the seven Societies created a working group to examine issues and potential outcome measures related to youth plans. In the long term, the working group aims to work with higher-level education institutions to develop outcome measures to evaluate how well the CCSY program is helping youth who are leaving Societies' care transition to independent living.

Societies' Ability to Influence Youth Is Limited by Lack of *Requirement for Youth to Actively* Participate in Transition Planning

- *The Ministry of Children and Youth Services should evaluate whether providing supports through the CCSY program that are not contingent on a youth demonstrating progress toward meeting his or her goals for transitioning to independent living and adulthood is resulting in better youth outcomes (as opposed to requiring these supports to be contingent on such progress).*

Status: Little or no progress.

Details

During our 2015 audit, we noted that supports provided to youth are not contingent on the youth's progress toward meeting his or her goals, as stated in the youth plan. In almost half of the cases we reviewed, we found no evidence that youth had made reasonable efforts to prepare for independent living. The Ministry stated that it would consider evaluating the merits of making supports contingent upon progress as well as other opportunities to support youths through the program.

At the time of this follow-up report, the Ministry had not yet changed its position that CCSY supports would not be tied to a youth's goals. However, in April 2016, the Ministry hired a consultant to review and recommend improvements to the existing performance indicators for the child protection services program. The review also involves assessing other areas, including the CCSY program, where performance should be measured. Output measures include the total number of youth receiving financial supports, the average sum of financial support received by youth, and the type of financial support provided. The Ministry is currently working to identify potential outcome data for the CCSY program that is collected by the Societies.

Variances in Worker Caseloads between Societies May Affect Consistency of Service Delivery

Recommendation 4

To ensure the effective and efficient delivery of child protection services in accordance with legislative, regulatory, and policy and program requirements, the Ontario Association of Children's Aid Societies should work with the Ministry of Children and Youth Services to:

- *develop standard caseload benchmarks for child protection services against which both Children's Aid Societies and the Ministry can periodically compare caseloads and ensure that Society caseloads are reasonable;*
  Status: In the process of being fully implemented by fall 2019.

Details

At the time of our 2015 audit, the Ministry had not established caseload standards that Societies could use to assess their staff's workload and ensure that they are effectively staffed to deliver timely and appropriate child protection services. Our analysis of staff and service data reported by all 47 Societies in Ontario for 2014/15 noted a wide range of caseload ratios among the Societies. For example, the total number of open investigations during the year ranged from a low of 50 to a high of 111 per caseworker. The Association indicated that it would work with the Ministry to develop caseload benchmarks.

At the time of this follow-up report, neither the Ministry nor the Association has taken any action on this recommendation. According to the Ministry, it is responsible for setting the overall strategy, goals and priorities for the protection services program. Because Societies are independent legal entities governed by independent boards of directors, the Ministry states that it cannot direct Societies regarding their staffing structures. The Ministry also advised us that Societies are best positioned to identify appropriate staffing structures in order to meet their legislative obligations and provide responsive services to children and youth. This, despite the fact that—as we noted in **Section 3.02, Children's Aid Societies**, of our *2006 Annual Report*—prior to April 2003, the Ministry had established caseload benchmarks upon which Society funding was based. The Association has not acted, and has informed us that it cannot act on the recommendation until it receives support from the Ministry.

The Ministry advised us that it will explore caseloads and their impact on consistency of child protection services across the province, engaging the child welfare sector in this work. This work is expected to be completed by fall 2019.

Differences in Services Offered by Societies Result in Inconsistencies in Supports Received by Families

- *determine what impact the differences in supports provided by Societies have on the quality of child protection services across the province, and develop a plan to ensure that children and families have equitable access across Ontario to the supports they need.*
  Status: Will not be implemented.

Details

The seven Societies we visited during our 2015 audit varied in size and the services they provided. Some of the Societies we visited, for example, had on-site medical and dental clinics, registered nurses to complement their frontline staff, and specialized in-home supports (such as assisting with parent-teen conflicts). At the time of our audit, the Association stated that it would be pleased to work with the Ministry to assess the impact that differences in supports provided by Societies have on the quality of child protection services across the province.

Since our 2015 audit, the Association has facilitated sessions between Societies to determine the

reasons for differences in service. However, the Association has not received the Ministry's support to conduct a comprehensive analysis of the impact of these differences. The Ministry stated that it is up to the Association and the Societies to act on this recommendation, as the Ministry believes each Society should develop staffing models that address its unique needs. The Ministry has committed to reviewing the funding model in 2017/18, including the allocation of funding according to each Society's needs.

The Ministry also advised us that it requires Societies to comply with child protection standards to ensure that child protection services are delivered using a consistent mandatory framework.

Auditor General's Response

We believe this is a significant recommendation and that the Ministry should work with the Association to move toward children and families having access to consistent protection services across Ontario. The Ministry is responsible for administering the child protection services program, which includes ensuring that children and families across the province have access to the same services.

Cost Efficiencies Could Potentially Be Achieved through Amalgamations of Societies and Shared Service Arrangements

Recommendation 5

To ensure that funding for child protection services is used appropriately to provide direct services to children and families, Children's Aid Societies should work with the Ministry of Children and Youth Services to identify opportunities to improve service delivery (including further amalgamation and shared services), with children's needs as the focal point.

Status: In the process of being fully implemented by August 2019.

Details

At the time of our 2015 audit, we noted that the direct costs of providing child protection services varied widely among Societies across the province. Our analysis of Society data found that about 13% of Societies' expenditures were related to back-office functions, training and recruitment, promotion and publicity, and specialized assessments such as drug testing and psychological services. Savings could potentially be achieved by implementing these business functions and perhaps others as shared services across all Societies so that they could redirect more funds toward direct services for children and their families.

In August 2016, the Association, the Ministry, and the Ministry of Government and Consumer Services entered into a transfer payment agreement for a Shared Services Program Implementation Project. Through this program, the Association will provide common services—such as procurement of goods and services, training, communications, and data management and analysis—to participating Societies. The program will also give Societies the option to sign up for additional services—for example, an after-hours call centre, background checks and translation services—on a fee-for-service basis.

At the time of our follow-up report, 32 societies have signed agreements with the Association to participate in the program, and an additional five societies were in the process of signing agreements. All of the seven Societies we visited during our 2015 audit have signed, or plan to sign, agreements with the Association to participate in the program. In the meantime, one of the Societies has also entered into a shared-services agreement with a neighbouring Society for training, annual review of its group homes, and therapeutic family care.

The project is expected to be fully implemented by August 2019. See **Section 1.03 (Child Protection Services – Ministry)** of this Follow-Up Volume of our Annual Report for more details on the Shared Services Program.

Excessive and Questionable Spending by an Executive Director Was Approved by One Society's Board

Recommendation 6

The board of directors of each Children's Aid Society should ensure that it oversees Society expenditures with sufficient care to ensure that funds are spent appropriately for child protection services.

Status: Fully implemented.

Details

During our 2015 audit, our review of executive credit card expenses at one of the Societies we visited identified excessive and questionable spending by its former executive director. The expenses lacked documentation to support that they were incurred for Society business, but were nonetheless approved by the Society's board of directors. The board acknowledged that it should have been more disciplined in its oversight of expenses. The Ministry also highlighted—in a separate review that was already underway during our 2015 audit—similar concerns with oversight of CEO expenses at another Society.

Since our audit, the Association has developed various governance aids for all Societies. For example, the Association introduced a self-assessment tool in 2015 to measure how board members believed they were performing. In June 2016, the Association also provided a guide to all Society boards on good governance practices.

Three of the seven Societies we visited during our 2015 audit also made changes to their policies. One Society, where our 2015 audit identified excessive and questionable spending by its former executive director, engaged an external consultant to help improve its procurement, reimbursement and expense policies. The board of directors of all but one of the seven Societies we had previously visited have standing finance committees that regularly review financial information to ensure that financial activities were in line with broader-public-sector requirements. The other Society has added a member with financial background (the treasurer) to its board to review financial matters related to the Society's operations. The Society has also updated its governance policies to allow for an ad hoc finance committee to be struck when needed, for example, to select an auditor and to review and approve the Society's audited financial statements. The ad hoc committee will be led by the board treasurer.

Chapter 1
Section
1.03

Ministry of Children and Youth Services

Child Protection Services Program—Ministry

Follow-Up on VFM Section 3.03, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW						
	# of	Status of Actions Recommended				
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	3	1	2			
Recommendation 2	1		1			
Recommendation 3	1		1			
Recommendation 4	1			1		
Recommendation 5	1		1			
Recommendation 6	1		1			
Recommendation 7	1		1			
Recommendation 8	1		1			
Recommendation 9	3	1	1	1		
Total	**13**	**2**	**9**	**2**	**0**	**0**
%	**100**	**15**	**70**	**15**	**0**	**0**

Overall Conclusion

According to the information that the Ministry of Children and Youth Services (Ministry) provided, as of July 17, 2017, two (15%) of the actions we recommended in our *2015 Annual Report* have been fully implemented. For example, since our last audit, the Ministry has assessed the proposed performance indicators it intended to roll out to ensure they will adequately evaluate the current and long-term outcomes of the Child Protection Services Program and of children receiving protection.

The Ministry has made progress in implementing another nine (70%) of our recommended actions. For instance, the Ministry hired a consultant who expects to set up effective data gathering and reporting systems at each Children's Aid Society (Society) by 2020, and who set up a process for reporting complete and accurate data on the new updated performance indicators. The Legislature also passed the *Child, Youth and Families Services Act, 2017*, which will extend the age of protection to include all children under the age of 18 years. In July 2017, the Ministry also released a blueprint of actions that will help ensure that all instances of non-compliance by residential licensees (such as

group homes and foster care agencies) are documented, reported to, and addressed by the residential service providers on a timely basis. The Ministry also will soon initiate an information tracking tool that will help to ensure that Societies promptly act on all recommendations directed to them from reviews of child deaths.

The Ministry has made little to no progress in implementing the remaining two (15%) of our recommendations. For example, it has not created mechanisms to confirm that directives and recommendations issued to a Society as a result of non-compliance with legislative and program requirements are acted upon and corrected. The Ministry also has not estimated the overall implementation costs of the Child Protection Information Network and the impact this system will have on the Societies' ability to deliver mandated child protection services within their budget allocations and how such costs should be funded.

Background

Child protection services in Ontario are governed by the *Child and Family Services Act* (Act), the purpose of which is to promote the best interests, protection and well-being of children. The Ministry of Children and Youth Services (Ministry) administers the Child Protection Services Program and contracts with 48 (47 at the time of our 2015 audit) local not-for-profit Children's Aid Societies (Societies) that deliver child protection services throughout Ontario. Some of the children receiving Society services, including Crown wards, live in group homes, foster homes, with next of kin, or live independently.

Services provided under most other programs administered by ministries are subject to the availability of funding; however, by the law that governs the Child Protection Services Program, each Society is required to provide all mandatory child protection services to all eligible children. This means that wait lists are not an option for child protection services.

The Ministry transferred payments of $1.48 billion in the 2016/17 fiscal year ($1.47 billion in 2014/15) to fund Societies' expenditures. Until 2012/13, transfers to specific Societies were based on historical funding. As of 2013/14, however, Ministry funding has been calculated using a formula based on the socio-economic needs of the community in which a Society is located and on its volume of cases. Societies are not allowed to spend more than they receive in funding, and the new funding model still does not provide funding based on Societies' service needs.

Ontarians expect that the child protection services will ensure that children and their families receive the care and support they need. The Ministry must have sufficient oversight and accountability processes in place to help Societies meet their mandated service delivery requirements, so that children and families receive suitable protection services when they need them.

We found in our 2015 audit that the Ministry could not provide effective oversight of Societies because it did not have enough information about the protection services the Societies were providing to most children they serve. The Ministry also had not established targets to allow it to measure the progress of Societies in meeting the performance indicators the Ministry had recently put in place in March 2015.

The Ministry also needed to better ensure that the pressures Societies faced to not exceed their funding allocation, as well as problems associated with implementing the new, centralized Child Protection Information Network (CPIN) system, were not adversely affecting their ability to deliver child protection services.

Additional significant issues included the following:

- The Ministry needed to act on data that showed that young people who had received protection services faced significant challenges when transitioning to independent

living. For example, a survey by the Ontario Association of Children's Aid Societies found that, in 2013, only 46% of eligible youth in the care of Societies earned high school diplomas, compared to the Ontario average of 83%. As well, the Provincial Advocate for Children and Youth identified that an estimated 43% of homeless youth had previous child protection services involvement, and that youth leaving the care of Societies were over-represented in youth justice, mental health and shelter systems.

- Annual reviews of Crown ward files to assess whether their needs had been addressed identified concerns that had not been addressed from one year to the next. Issues included failing to develop a plan of care that identified the child's strengths, needs and goals and that was updated to reflect the child's progress to ensure that timely response to their needs was monitored.
- The Ministry's oversight of non-Crown wards who receive protection services was limited because it did not review the files of non-Crown wards.
- Ministry licensing inspections found repeated concerns that were not addressed, such as Plans of Care (tracking the child's developmental progress) that were not completed in the required time frame.
- CPIN was not delivering on its promised benefits despite significant investments in time and money. The Ministry expected to have CPIN in use by all Societies by the end of the 2014/15 fiscal year at a total cost of $150 million. But as of the end of 2014/15, CPIN had been deployed in just five of the province's 47 Societies. The Ministry's revised plan outlines deploying CPIN to the remaining Societies by the end of the 2019/20 fiscal year. The new plan now pegs the rollout at an estimated total cost of $200 million.

In our 2015 audit report, we recommended that the Ministry take the following steps:

- appropriately monitor and assess the performance of Societies and identify opportunities to improve protection services;
- consider the feedback the Ministry is receiving to extend child protection services to all children under the age of 18;
- review Societies' files for non-Crown wards in receipt of child protection services;
- ensure that funding provided to Societies was commensurate with each Society's child protection needs;
- work with Societies to identify opportunities for improving their service delivery; and
- determine the cost of CPIN's implementation to the remaining Societies, the impact of such costs on Societies' ability to deliver mandated child protection services within their budget allocations, and how such costs should be funded.

Our 2015 report contained nine recommendations, consisting of 13 actions, to address our audit findings. We received commitments from the Ministry that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017 and July 20, 2017. We obtained written representation from the Ministry of Children and Youth Services (Ministry) that, effective September 1, 2017, it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

The status of actions taken on each of our recommendations and the related actions are described in the following sections.

Ministry Does Not Have Sufficient Information to Monitor the Performance of the Child Protection Services Program

Recommendation 1

To appropriately monitor and assess the performance of the Child Protection Services Program and the Children's Aid Societies that deliver child protection services, the Ministry of Children and Youth Services should:

- *Assess the proposed performance indicators it intends to roll out to ensure they target the necessary areas that will adequately evaluate the current and long-term outcomes of the Child Protection Services Program and of children receiving protection;*
  Status: Fully implemented.

Details

During our 2015 audit, we found that the Ministry did not have sufficient information to monitor and assess the performance of the Child Protection Services Program as a whole, or the performance of individual Societies in their delivery of child protection services. We found that before the end of the 2014/15 fiscal year, in an attempt to improve its monitoring of Society performance, the Ministry was collecting and reporting results from five new performance indicators. By the end of 2016/17, it planned to roll out 21 additional performance indicators. However, according to the Ontario Association of Children's Aid Societies (OACAS), many Societies faced significant issues with extracting data to report on performance indicators. These issues included technical limitations, such as data that was never entered into existing Society case management systems, and data that was available but difficult to extract because it was in a text field. As a result, many Societies had not yet reported on the existing five indicators. Therefore, we questioned the Ministry's ability to effectively collect and analyze data from each Society on the additional 21 indicators by the end of the 2016/17 fiscal year.

Since our audit, in February 2017, OACAS published a report with recommendations for the Ministry based on a review of the 26 provincial indicators: the five established in 2014/15 and the additional 21 that, at the time of our 2015 audit, were expected by 2016/17. OACAS evaluated their relevance and effectiveness in measuring outcomes for children and youth and the practicability of Societies collecting and reporting the necessary data. The review was supported by the Ministry and was conducted between 2013 and 2016 in collaboration with a number of stakeholders, including universities and information technology consultants. As part of the review, OACAS signed data sharing agreements with 46 out of 47 Societies that existed at that time (since then another Society has been established for a total of 48 at the time of our follow-up). The original 26 provincial indicators were revised into 21 new proposed indicators that OACAS believes should better evaluate the current and long-term outcomes of the Child Protection Services Program and of children receiving protection.

- *Collect data from each Society on each of the confirmed performance indicators, and analyze this data to identify trends that require follow-up and/or corrective action on both program-wide and at an individual Society;*
  Status: In the process of being implemented by March 2020.

Details

During our 2015 audit, we found that at the end of the 2014/15 fiscal year, the data published by the Ministry on its five performance indicators was not complete because not all Societies provided data on these indicators. In addition, because the Ministry collected data on these performance indicators through a third party in a combined form, instead of from each individual Society, it could not perform any meaningful Society comparisons or

analysis, or appropriately follow up, where necessary, at individual Societies.

Since our audit, in early 2017, the Ministry hired a consultant to collect data for the five publicly-reported performance indicators from all Societies and set up reporting systems at each Society for reporting complete and accurate data on the new 21 proposed performance indicators. At the time of our follow-up, the Ministry told us that the outside consultant is expected to complete this work by 2020. Until then, the current data on the five established indicators will continue to be incomplete and collected combined from all the Societies, which will not allow the Ministry to identify trends that could require follow-up and/or corrective action both on a program-wide and at an individual Society level.

- *Analyze the outcomes of children who received protection services to identify opportunities to improve protection services and ultimately the future of these children.*

  Status: In the process of being implemented by March 2020.

Details

During our 2015 audit, we found that the Ministry needed to better analyze and assess Societies' performance, and the reasons for children's outcomes obtained from the Child Protection Services Program. Based on available information, we noted that many young people struggle after receiving protection services. In particular, high-school completion rates for youth in Societies' care were lower compared to the provincial average. Also, numerous reports going back to the mid-1980s recognized that youth leaving care were over-represented in the youth justice, mental health and shelter systems.

At the time of our follow-up, the Ministry told us that, in 2020, Societies are expected to begin to report complete and accurate data on the new proposed 21 performance indicators. The Ministry will then begin to use this data to analyze Societies' performance and to identify opportunities for changes and improvements in the Child Protection Services Program. Until then, the Ministry will do its best to identify opportunities for changes and improvements using data that is currently being reported on the established five performance indicators.

Children 16 to 17 Years of Age Who Feel Unsafe Are Not Able to Access Protection Services

Recommendation 2

The Ministry of Children and Youth Services should consider the feedback they are receiving for extending child protection services to all children under the age of 18 to ensure that all children have access to protection from abuse and neglect.

Status: In the process of being implemented by fall 2017.

Details

During our 2015 audit, we noted that the *Child and Family Services Act*, under which child protection services are governed in Ontario, did not extend to children older than 15 years of age unless subject to a child protection court order. We found that, while several Canadian provinces provide protection services up to the age of 18, children in Ontario aged 16 and 17 who feel unsafe in their family living situations were not able to access child protection services.

Since our audit, on June 1, 2017, Bill 89, the *Supporting Children, Youth and Family Services Act, 2017*, was passed and received Royal Assent. The new Act extends child protection services to children under the age of 18. At the time of our follow-up, the Ministry told us that it anticipates that the extended age of protection provisions in the Act will be proclaimed by the end of 2017, with the remainder of the provisions anticipated to be proclaimed in spring 2018. The Ministry also told us that it was in the process of consulting with stakeholders to develop a policy directive for Societies on the service approach for 16- and 17-year-olds in need of protection.

Ministry's Oversight of Children Receiving Protection Services Is Limited

Recommendation 3

To better ensure that all children and youth in receipt of child protection services are safe and receive care that meets their needs and is in compliance with legislative and Ministry program requirements, the Ministry of Children and Youth Services should review Children's Aid Societies' files for non-Crown wards in receipt of child protection services.

Status: In the process of being implemented, estimated completion by 2030–2034.

Details

In response to findings in our 2006 audit of the Ministry's Child Welfare Services Program, the Ministry responded that it would re-establish its periodic file reviews of non-Crown wards. These reviews had been discontinued as of 2003, even though in its previous reviews the Ministry had identified numerous instances of Societies not complying with legislated and Ministry program requirements. In the 2008 follow-up to our 2006 report, the Ministry informed us that it had developed a file review process that would include regular reviews of non-Crown ward files beginning in 2008. However, during our 2015 audit, we were advised that the Ministry did not implement those reviews (or another review process aimed at these children) and that it had been more than 10 years since the Ministry had completed regular file reviews of non-Crown wards.

Since our 2015 audit, as part of its new approach to accountability based on recommendations of the former Commission to Promote Sustainable Child Welfare, the Ministry successfully piloted a new comprehensive review process at two Societies. Under the new process, end-to-end reviews are comprehensive reviews conducted of individual Societies, identifying opportunities and priorities for improvement in the domains of governance, operations management and service delivery, financial management and controllership, client outcomes, and performance management. As part of this process, the Ministry reviews whether Societies have appropriate processes in place to monitor their compliance with legislative and program requirements, including for non-Crown wards, and whether Societies are also carrying out internal reviews to monitor their compliance with legislative and program requirements. Subsequently, after incorporating lessons learned from the pilots, the Ministry launched the new review process in August 2016. Since then, at the time of our follow-up, the Ministry completed an end-to-end review at one more Society and was in the process of reviewing a fourth one. The Ministry estimated that, based on its current resources, complete comprehensive reviews of all 48 Societies will take between 13 and 17 years. In addition, the Ministry established the Standards Quality Improvement Plans as a mechanism to assess ongoing compliance results for a number of child protection standards and other Ministry requirements, with the expectation of Societies achieving 100% compliance.

Recommendation 4

In order for the Ministry of Children and Youth Services' review of Crown ward files to be effective in ensuring children are receiving protection services in accordance with legislation and Ministry policies, the Ministry should put mechanisms in place to confirm that directives and recommendations issued to a Children's Aid Society as a result of non-compliance with legislative and program requirements are acted upon and corrected.

Status: Little to no progress.

Details

During our 2015 audit, we found that in about 40% of the Crown ward review files we reviewed for the regions we visited, the Ministry identified non-compliance issues that were recurring from one year to the next. For example, these included:

- Plans of Care, which track a child's developmental progress, that were not completed in the required time frame;

- foster parents not being aware of the reporting requirements for serious occurrences, such as a serious injury, alleged abuse or a missing child; and
- residences unable to demonstrate that annual medical exams were being completed as required.

At two of the three regions we visited, we also noted that it was not the practice of Ministry staff to verify that corrective actions were taken to address instances of non-compliance that they identified. Instead, they relied on information from the Children's Aid Society that issues of non-compliance had been addressed, even though the Ministry had identified recurring issues at a Society year after year.

Since our audit, the Ministry has made little progress in response to our recommendation. In January 2017, the Ministry asked Ontario's Internal Audit Division (Internal Audit) to look at its Crown Ward Review Process. As part of its work, Internal Audit will provide the Ministry with specific recommendations on how this process can be improved. At the time of our follow-up, the Ministry told us it expects Internal Audit to provide its final report in fall 2017. The Ministry will then use the report and the recommendations to consider whether to update its current mechanisms that address non-compliance with legislative and program requirements.

Ministry Licensing Inspections of Children's Residences Found Repeated Concerns That Were Not Addressed, Potentially Affecting Children's Safety

Recommendation 5

To ensure that children in the care of Children's Aid Societies are placed with residential care providers (group homes and foster care agencies) that provide appropriate care to children, the Ministry of Children and Youth Services should ensure that all instances of non-compliance with requirements are documented, brought to the attention of residential care providers, and addressed by the residential care providers on a timely basis.

Status: In the process of being implemented by the end of 2018.

Details

During our 2015 audit, we reviewed a sample of licensing inspections by the Ministry of residential licensees, such as group homes operators and foster care agencies. The inspections assess whether or not a basic level of care and safety is being provided. We found that some non-compliance issues were recurring year after year. We also found that non-compliance issues were identified but not brought to the attention of the licensee by Ministry staff from their review and therefore were not addressed by the licensee.

Since our audit, the Residential Services Panel, in May 2016, submitted a report to the Government from a review of the Province's child and youth residential services system. The review included foster and group care, children and youth mental health residential treatment, and youth justice facilities. Based on this report, in September 2016, the Government released a mandate letter for the Minister of Children and Youth Services. The letter includes reference to developing a blueprint for reform of residential services that would improve quality of care, enhance oversight of licensed residential settings and use data to inform decision-making at all levels.

The blueprint is also tied to the *Child, Youth and Family Services Act, 2017*, which includes new residential licensing provisions that are intended to:

- strengthen and modernize the licensing, compliance and enforcement framework for child and youth residential services to better support high-quality services for children and youth; and
- provide new and enhanced authorities for the Minister and Ministry to improve the accountability and transparency of licensed residential services and to enhance the quality of care provided in licensed residential settings.

In July 2017, the Ministry publicly released its blueprint, a multi-year plan for comprehensive reform to improve quality of care, enhance oversight of services and ensure children and youth have a voice in helping to plan their care. Immediate actions in the blueprint include increasing the number of unannounced and enhanced inspections of licensed residences by Intensive Site Review Teams, which include interviews with staff and youth, as well as case file and program reviews. The Ministry said that these actions will be rolled out in 2018 and that they should help further ensure that all instances of non-compliance with requirements are documented, brought to the attention of residential care providers, and addressed by the residential care providers on a timely basis.

In the meantime, the Ministry said that it is continuing to improve current licensing processes and practices related to the documentation of licensing non-compliance issues. It is also working on follow-up procedures with residential care providers to ensure that they address all instances of non-compliance on a timely basis. For example, in May 2015, the Ministry started to track and monitor licensing renewals against service standards.

The Ministry conducted staff training in June 2017 that covered the use of consistent tools, documentation, and follow-up processes for addressing all issues identified as non-compliance. In March 2017, the Ministry organized a meeting for its Licensing and Compliance Managers to discuss identifying and communicating issues related to compliance with licensees; the importance of follow up, tracking and documentation of follow up; and to discuss the next steps of the training. The training materials were issued in July 2017 to be available as an ongoing training resource for staff.

Ministry Is Not Verifying That Children's Aid Societies Are Implementing Recommendations from Death Investigations

Recommendation 6

To reduce the risk of recurrence of circumstances that may have contributed to the death of children who have received child protection services, the Ministry of Children and Youth Services should ensure that Children's Aid Societies implement all recommendations directed to them from child death reviews on a timely basis and obtain and review relevant progress reports on their implementation.

Status: In the process of being implemented by September 1, 2017.

Details

During our 2015 audit, we found there was no documented evidence that the Ministry's regional office staff reviewed the appropriateness of corrective actions taken by Societies to address recommendations made by the Paediatric Death Review Committee (Committee) and in the Internal Child Death Reviews.

Since our audit, in October 2016, the Ministry completed a scan of regional Committee information tracking tools. In January 2017, the Ministry also completed a scan of five years of Committee recommendations, Society responses, and Ministry verification practices. The analysis included a review of all bi-annual progress reports from 2009 to 2014 and identified systemic themes within recommendations made by the Committee. The Ministry used the information to develop a new standardized tracking tool designed to track the relevant stage of reporting for each child death, and relevant staff training sessions and materials were delivered in May and July 2017 to regional staff. At the time of our follow-up, the Ministry told us that the new tools will be used across the province as of September 1, 2017.

Once implemented, the tracking tool will be used to record information that will include the following:

- whether the Committee has requested a death review to be completed;
- whether a Committee report is being completed;
- all the recommendations from a death review and a Society's response regarding its progress on these recommendations; and
- the next date of a Society's progress report.

When Societies provide a progress report on their response to the recommendations from a review of a death, they will be expected to input into the response tool the following:

- an outline of actions taken;
- a timeline for implementing these actions; and
- an explanation for any recommendations not implemented.

The tools' analyses will allow the Ministry to identify outstanding responses or incomplete data fields. This will allow the Ministry to quickly identify and follow up with a Society that did not properly document its response to a death report's recommendations.

Ministry's New Funding Model Still Does Not Provide Funding to Societies Based on Service Needs

Recommendation 7

In order to ensure that funding is commensurate with each Children's Aid Society's individual needs, the Ministry of Children and Youth Services should assess the impact that its current funding model has on the delivery of protection services and make the necessary changes to its funding model if service is being adversely affected.

Status: In the process of being implemented by summer 2017.

Details

During our 2015 audit, we found that the new funding model introduced by the Ministry in 2013/14 still did not appropriately allocate funding as intended. This could potentially put Societies under operational pressures and compromise their ability to provide the necessary and appropriate protection services required of them under the Act. In their responses to the survey we conducted, Societies acknowledged that the new model was an improvement over prior models; however, they expressed concerns that the factors, weights and data sources used to allocate funding to their Society did not reflect their needs and the needs of the communities they serve. We found cases where funding calculated for individual Societies under the new funding model differed vastly from Societies' prior-year funding. These vast differences indicated that, unless Societies were drastically underfunded or overfunded historically, there may be flaws in the new funding model. We also noted that several Societies raised concerns that, although they had been able to deliver protection services to date, their ability to deliver mandated services while operating within their funding allocation was questionable in the future.

In fall 2016, the Ministry hired an external consulting firm to conduct a review of the new funding model's effectiveness. The firm is examining the model's ability both to enable Societies to fulfill their child protection mandate and to allocate a finite amount of funding across individual Societies. At the time of our follow-up, the Ministry told us that it expects to receive a final report from this review in summer 2017. It will then use the report to determine whether any changes to the new funding model are necessary. If changes are needed, the Ministry told us that it would implement them by April 2018.

Potential for Society Amalgamation and Shared Services

Recommendation 8

To ensure that Children's Aid Societies provide quality child protection services cost-effectively, the Ministry of Children and Youth Services should work with Societies to further identify and implement opportunities for improving the efficiency of their service delivery

(including further amalgamations and shared services), while keeping children's needs in the forefront.
Status: In the process of being implemented by summer 2019.

Details

During our 2015 audit, we noted that, in 2010, the former Commission to Promote Sustainable Child Welfare had identified that a number of smaller Societies should move toward amalgamating with a neighbouring Society to improve cost effectiveness, and to enhance quality, expertise and managerial capacity. In 2011, the Minister encouraged Societies to pursue voluntary amalgamation. Since that time, 16 Societies have amalgamated into seven—including two Societies that amalgamated during our audit. The Commission also recommended that a range of business functions currently performed separately by Societies should be made into shared services across all Societies.

In August 2016, the Ministry, along with the Ministry of Government and Consumer Services, entered into an agreement to develop a shared services program for the child welfare sector. The program will allow Societies to centrally procure goods and services, such as training, recruitment and IT services. At the time of our follow-up, 32 Societies had already joined the program and an additional five Societies had indicated their intent to join the program. The program is expected to be fully operational and financially self-sustaining by August 2019.

Since our audit, no other Societies pursued amalgamation. However, Bill 89, the *Supporting Children, Youth and Family Services Act, 2017*, provides the Minister with the authority to order two or more Societies to amalgamate when it is in the public interest to do so. The Act will establish a formal process for approving voluntary amalgamations proposed by Societies. The Ministry anticipates that these provisions in the Act will be proclaimed in spring 2018.

Ministry's Child Protection Information Network System Is Not Currently Delivering on Its Promised Benefits Despite Significant Investments in Time and Money

Recommendation 9

To help ensure that the Ministry of Children and Youth Services and the Children's Aid Societies realize the intended benefits of the Child Protection Information Network (CPIN) system, the Ministry should work closely with all stakeholders to:

- *Review and update its recently developed strategy for CPIN to ensure that all critical functionality gaps are identified and resolved before the remaining Societies implement CPIN, and ensure that the strategy allows the system to be functioning as intended by 2020;*
  Status: Fully completed.

Details

During our 2015 audit, we found that the Ministry's initial 2010 Cabinet-approved implementation plan expected to have the Child Protection Information Network (CPIN) system in use by all Societies by the end of the 2014/15 fiscal year. However, as of March 31, 2015, CPIN had been deployed in only five of the 47 Societies. We surveyed the five Societies that were using CPIN and found that several key components were not performing as expected. For example, the reporting function that was expected to help a Society and the Ministry oversee service delivery was not working properly. Societies also indicated that certain components of CPIN that were not functioning properly had important implications for child safety and Societies' ability to meet legislative requirements. Specifically, Societies indicated that they could not track important legislative milestones for their cases in CPIN, such as due dates for visits with the child and family, and scheduled reviews of Service Plans intended to ensure that caseworkers conducted these on time.

Since our audit, in April 2016, the Ministry updated and approved a 52-month Network deployment plan. The release of this long-term plan allows Societies to include costs associated with the implementation of CPIN as part of their annual operating plans. At the time of our follow-up, CPIN had been deployed at 19 Societies. In August 2016, the Ministry also completed a post-implementation review of CPIN at the initial five Societies. This review yielded more than 50 lessons that the Ministry used to update and improve its CPIN deployment strategy. The Ministry also told us that, in collaboration with all stakeholders, it is working to ensure that all critical gaps in CPIN's components are identified and resolved promptly. For example, a Working Group exists for each area of information within CPIN. These groups review CPIN's gaps identified by Societies for a specific area and determine which changes are required and how they should be prioritized. Since our 2015 audit, the Ministry has installed more than 10 system updates that fixed most of CPIN's defects affecting reporting, case and finance management. The Ministry told us that based on its current progress, by 2020 it plans for CPIN to be fully functioning and deployed at the remaining Societies.

- *Determine the cost of CPIN implementation to the remaining Societies, the impact of such costs on the Societies' ability to deliver mandated child protection services within their budget allocations, and how such costs should be funded.*
  Status: First part of recommendation (determining costs and their impact) is in the process of being implemented by fall 2017; second part of recommendation (determining funding) has had little to no progress.

Details

During our 2015 audit, we found that the Ministry had not estimated the additional costs that Societies would need to incur to get on and use CPIN. Our survey of the 14 Societies that were expected to implement CPIN by the end of the 2012/13 fiscal year found that these Societies had made significant investments in human and financial resources in the previous three years to prepare for using CPIN. Such investments included hiring additional staff, undergoing training activities, and performing data-cleansing activities. The Ministry provided up to $220,000 in funding to each of these Societies, totalling approximately $2.8 million, to help support CPIN implementation. However, we found that the Societies that were the first to adopt CPIN actually incurred additional expenses totalling approximately $18.7 million from 2011/12 to 2014/15, when CPIN went live. This was more than six-and-a-half times the funding they received from the Ministry. In addition, our survey of the five Societies that actually had implemented CPIN indicated that, since going live on CPIN in June 2014, those Societies spent an additional $5.4 million in total to manage workload pressures resulting from inefficiencies in CPIN. These additional costs were funded through the Societies' own operating funds, which may have further impacted protection services.

In February 2017, the Ministry sent a questionnaire to three Societies to gather information about additional costs they incurred in relation to CPIN deployment. At the time of our follow-up, the Ministry told us that it is expanding the questionnaire to obtain additional information. In July 2017, the Ministry met with the three Societies and OACAS to discuss and confirm these changes. The Ministry expects responses back from the three Societies to the expanded questionnaire in August 2017. It will then use the gathered information to assess the costs' impact on the Societies' ability to deliver mandated child protection services and to plan future implementation of CPIN at other Societies.

Ministry of Economic Development and Growth

Economic Development and Employment Programs

Follow-Up on VFM Section 3.04, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	4	2.5	1		0.5
Recommendation 2	1			0.5	0.5
Recommendation 3	1		1		
Recommendation 4	1		0.5	0.5	
Recommendation 5	2	1			1
Recommendation 6	1	1			
Recommendation 7	1		1		
Recommendation 8	2	1	1		
Recommendation 9	2		2		
Total	**15**	**5.5**	**6.5**	**1**	**2**
%	**100**	**37**	**43**	**7**	**13**

Overall Conclusion

The Ministry of Economic Development and Growth (Ministry) provided us with information in spring and summer 2017 on the current status of the recommendations we made in our *2015 Annual Report*.

The Ministry has fully implemented 37% of our office's recommendations, including the recommendation to monitor performance measures beyond the term of funding contracts. The Ministry has revised its contracts for all funds to require annual reporting of results for three years after a project is completed.

In addition, 43% of our recommendations are in the process of being implemented. The Ministry is developing performance measures to assess results of projects under the Jobs and Prosperity Fund, including export sales in new markets and annual spending on research and development.

Also, the Ministry expects to have access to the new cross-ministry Transfer Payment Common Registration system by March 31, 2019. This will allow the Ministry to access applicants' organization profile information and identify them by unique identifying numbers. With access to the system, the Ministry will be able to view all funding received by an applicant from other provincial programs, which will help inform decisions on whether the applicant has need for funding.

The Ministry has made little or no progress on 7% of our recommendations and will not be implementing 13% of our recommendations. Since our *2015 Annual Report*, the Ministry has not sought to become the lead for overseeing all direct-to-business supports because it does not currently have access to information on other ministries' funds. Once the Ministry has access to such information—which is expected to occur by March 31, 2019, when all ministries are included in the Transfer Payment Common Registration system—it will consider whether it should seek to be the lead of economic development programs. The Ministry will not be implementing our recommendation to integrate activities of other key ministries responsible for areas that impact the Ontario economy, such as corporate income tax, immigration and electricity rates, since it does not have authority to do so. Also, the Ministry will continue to keep the Jobs and Prosperity Fund an invitation-based fund and will not make the application package publicly available.

Background

To help support economic development and employment, the provincial government provides multi-year grants and interest-free loans to businesses for projects ranging from expansion to export growth to research and development.

Several ministries deliver these supports, but the funds that focus entirely on existing businesses flow through the Ministry of Economic Development and Growth (Ministry), formerly the Ministry of Economic Development, Employment and Infrastructure.

The Ministry's funds assist projects involving information and communication technology, clean/green technology, financial services, life sciences, and projects in the automotive, manufacturing, and research and development sectors.

In January 2015, the government announced it would fold many existing programs into a new $2.7-billion Jobs and Prosperity Fund, with $2 billion administered by the Ministry and $700 million by other ministries. A new funding stream was added to the fund in September 2015, resulting in the following four streams: New Economy, Food and Beverage Growth, Strategic Partnerships, and Forestry Growth.

In the period from our last audit in 2015 to March 31, 2017, the Ministry committed $398.3 million to 25 projects in this fund: $396.3 million in grants and $2 million in loans. Over this time, the Ministry disbursed $282.1 million, with the remaining $116.2 million to be paid over the next five years.

During this same period, the Ministry committed $71.6 million—$68.8 million in grants and $2.8 million in loans—to 98 projects in the two regional funds that the Ministry oversees: the Eastern Ontario Development Fund and Southwestern Development Fund. Of that amount, the Ministry disbursed $34.9 million, with the remaining $36.7 million to be paid over the next seven years.

At the time of our 2015 audit, the Ministry generally performed well with respect to the approval process in administering and overseeing its own economic-development and employment-support programs. In addition, the projects had success in leveraging investments by businesses in Ontario and in creating and/or retaining jobs.

The following are some of the significant issues we noted in our *2015 Annual Report*:

- The Ministry had not attempted to measure whether the almost $1.5 billion it had provided to Ontario businesses since 2004 had

actually strengthened the economy or made recipients of the money more competitive. As well, the Ministry's new Strategic Investment Framework did not include a plan for measuring outcomes from future economic development and employment supports, including for its new Jobs and Prosperity Fund. Although the Ministry measured actual investment achieved, actual jobs created and retained, total contracted investment leveraged and total cost per job per year, it had not set a goal for minimum gross domestic product (GDP) growth or unemployment rate reductions, either at the local level or for the overall economy. Other provinces had set such goals to guide their economic development efforts.

- Even though Ontario, like most other provinces, had shown improved economic performance in each of the previous four years, the need for the Ministry to ensure its programs benefit the economy was still important. Many expert reports questioned whether such programs and funding actually achieved any economic benefits.
- While the Ministry recognized the economic benefits of promoting key regions and establishing industry "clusters"—geographic concentrations of interconnected businesses, suppliers and associated institutions in a particular field—it was just beginning to develop strategies for its involvement in each region and cluster that identified key strengths and barriers or weaknesses that it could help to address.
- Expert reports over the previous several years had also highlighted the importance of small- and medium-sized businesses (those with fewer than 500 employees), which account for about one-third of Ontario's GDP. While 40% of the number of projects funded by the Ministry related to existing small- and medium-sized businesses, the dollar value of that support amounted to less than 4% of its total funding. The Ministry had neither assessed how many small- and medium-sized businesses lacked access to supports, nor made it clear why its funding was targeted primarily to large businesses.
- The Ministry's mandate is to support a strong, innovative and competitive economy that provides jobs and prosperity for all Ontarians; however, nine other ministries independently also provide similar funding to businesses. As such, the Ministry does not have the authority to co-ordinate with other ministries, which deliver $1.8 billion of additional economic development and employment support funding. Although the new Strategic Investment Framework outlined an "all-of-government" approach, each of the other nine ministries still continued to deliver support funding without the overall co-ordination that could ensure the best use of funds. Expert reports had recommended this type of funding be consolidated across ministries to achieve administrative efficiencies and help government target funding to certain sectors or areas of the province.
- There was a need for more transparency in how invitation-based funding was awarded. Since 2010, about 80% of approved funding was committed through non-publicly advertised processes, in which only select businesses were invited to apply. The Ministry determined internally which businesses were to be invited, but it could not provide us with the criteria it used to identify the businesses it invited to apply, or a list of those whose applications were not successful.
- Past funding was often awarded without a proper needs assessment. The Ministry almost never assessed whether businesses needed public funding in order to achieve the proposed project. Furthermore, some projects were approved for funding even though there was evidence they would have proceeded without government help.

- The Ministry did not monitor recipients to see whether jobs that were created or retained during the life of the funding contract continued after the contract expired. Contracts were normally for five years, but the Ministry had no information on whether the jobs the recipient offered to create or retain during those five years were maintained afterwards.
- As of January 2015, the government had publicly announced almost $1 billion more in economic-development and employment-support funding projects by re-announcing the same available funding under different fund programs.

Among other things, we recommended that the Ministry should do the following:

- develop a comprehensive strategy for economic development and employment that establishes targets by industry sector and geographic region;
- seek to become the lead ministry responsible for overseeing and achieving a comprehensive provincial strategy for economic development and employment programs;
- add greater transparency in accepting applications and selecting the qualifying businesses to which it provides funding; and
- expand performance measures beyond investment and employment results to include whether benefits to the economy continue after project completion.

We made nine recommendations, consisting of 15 actions, to address our audit findings.

We received commitment from the Ministry that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017 and July 27, 2017, and obtained written representation from the Ministry of Economic Development and Growth (Ministry) on September 1, 2017 that it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Planning and Co-ordination of Economic Development Support Funding

Recommendation 1

To foster the best use of government funding to help businesses succeed within a prosperous Ontario economy, the Ministry of Economic Development and Growth should develop a comprehensive strategy for economic development and employment programs that:

- *establishes and publicly communicates targets by sector and geographic region to enable an evaluation of the effectiveness of the funding it provides;*

  Status: In the process of being implemented by March 31, 2018.

Details

As was the case at the time of our 2015 audit, the Jobs and Prosperity Fund targets specific sectors, and the Eastern Ontario Development Fund and Southwestern Ontario Fund target geographic locations. More recently, the government set a target in the 2016 Ontario Budget that 300,000 jobs would be created by 2019. In the same budget, the government announced the Ministry's new strategy—known as the Business Growth Initiative (Initiative)—to help achieve this target. However, the Ministry did not establish any specific targets through the Initiative, such as investments and job creation or retention. The Ministry has committed to creating and retaining about 85,000 jobs under the three active funds that it administers: the Jobs and Prosperity Fund, Eastern Ontario Development Fund, and Southwestern Ontario Development Fund. However, it did not set out how many jobs

were committed for individual Ontario sectors or geographic regions.

The Ministry is in the process of developing key performance indicators for the three active funds to measure the impact of the funded projects on the provincial economy overall. The Ministry is planning to publish the indicators by March 31, 2018. These indicators will include:

- business expenditure in research and development in Ontario;
- foreign direct investment in Ontario;
- the number of patents filed per million people in Ontario; and
- the number of high growth firms (defined as firms with a minimum annual revenue of $10,000 that have achieved average annualized growth of 20% or more in revenue, over the most recent three-year period) as a proportion of all firms in Ontario.

- *considers the benefits of financial supports for small- and medium-sized businesses;*
  Status: Fully implemented.

Details

Some financial support is provided to small- and medium-sized businesses through the two regional funds: the Eastern Ontario Development Fund and Southwestern Ontario Development Fund. However, as noted in our *2015 Annual Report*, the Ministry does not track how many of the regional funds' recipients are small- and medium-sized businesses. The Jobs and Prosperity Fund provides funding only to larger businesses.

Two programs that target small- and medium-sized businesses were launched under the Business Growth Initiative: the Small Business Innovation Challenge and Scale-up Vouchers.

The Ministry partnered with the Ontario Centres of Excellence to launch the Small Business Innovation Challenge in March 2017. This fund of $28.8 million is targeted at innovative start-ups and small- and medium-sized businesses and was created to encourage the development of business solutions for current challenges in Ontario. For example, the Ministry will provide funding to, and has received submissions from, small- and medium-sized businesses to develop innovative solutions for the following challenges:

- to verify identity online and to be used to support ServiceOntario's online activities, including driver's licence and licence-plate-sticker renewals; and
- to help ensure that high-occupancy-vehicle and high-occupancy-toll lanes are used appropriately.

The funding submissions for these two challenges are currently in the review process. The Ministry plans to provide funding of approximately $7.5 million to 12 small- and medium-sized businesses for these challenges. No other challenges have been identified for funding.

The Scale-up Voucher Program launched in June 2017. It is a four-year, $32.4-million program that will provide grants to high-growth companies in sectors including information and communications technology, advanced materials and manufacturing, clean technology, and life sciences. To administer the program, the Ministry has entered into an agreement with MaRS, a not-for-profit corporation that established a research and innovation hub in Toronto. While the program is targeted at high-growth companies, rather than small- and medium-sized businesses, the Ministry anticipated that the majority of the applicants would be small- and medium-sized businesses. At the time of our follow-up, based on the number of employees, five applicants were medium-sized and 28 were small-sized businesses.

In January 2017, the government established a new ministerial role, the Minister Responsible for Small Business, to "accelerate the government's work in helping small businesses compete, grow and create jobs in the province." Part of this includes helping small businesses identify export markets.

- *identifies and develops strategic partnerships between stakeholders such as universities, manufacturers and suppliers, and centres of excellence to leverage their expertise and help further promote and develop effective industry clusters;*
  Status: Fully implemented.

Details

In December 2015, the Ministry published Cluster Guidelines that explain to companies how to work with the government on a cluster plan under the *Partnerships for Jobs and Growth Act*. The guidelines are applicable to various industries across Ontario's economy.

The Ministry had not approved any Jobs and Prosperity Fund projects when we completed fieldwork for our audit in 2015. The Strategic Partnerships Stream of the Jobs and Prosperity Fund provides funding for industry partners (companies, research institutions, suppliers, investors and customers) to work together and develop industry-driven clusters.

The Ministry is continuing to review and approve applications for this funding stream in the 2017/18 fiscal year and until 2024. At the time of our follow-up, two projects under this stream had been approved:

- In February 2016, $22.8 million was provided in funding for a partnership between the Ontario Centres of Excellence and IBM in the information and communications technology sector. The project is to help 500 small- and medium-sized businesses create jobs by giving them access to IBM's expertise and tools.
- In September 2015, $19.4 million was provided in funding for a partnership between the University of Toronto, MaRS, and Johnson & Johnson in the life sciences sector. The project will give 50 new life sciences and health-sector businesses access to laboratories and equipment on-site at Johnson & Johnson.

The Ministry also established the Cluster Development Seed Fund in January 2016, which is delivered by the Ontario Chamber of Commerce. About $160,000, of a total of $198,000, has been committed to five projects that are nearing completion. No funds have been disbursed to any projects to date because funding is provided at the end of the project. Examples of projects include the Sudbury Mining Technology Cluster and Ontario's Aerospace Cluster Development. The fund will close upon completion of the projects.

- *integrates the activities of other key ministries responsible for areas that impact on the economy, such as training, research, agriculture, northern Ontario development, corporate income tax, immigration and electricity rates.*
  Status: Fully implemented (0.5); will not be implemented (0.5).

Details

As was the case at the time of our audit, the Ministry works with other ministries during the assessment and evaluation process of projects under the Jobs and Prosperity Fund, Eastern Ontario Development Fund, and Southwestern Ontario Development Fund. Recommendations for funding are approved by two multi-ministry committees: one of Assistant Deputy Ministers, and one of Deputy Ministers.

The Ministry has helped the Ministry of Advanced Education and Skills Development by providing it with industry information to create the Planning and Partnership Table (Table). The Table is a committee established to make recommendations on skills and talent development for the government regarding program development. The Table consists of representatives from employers, the education sector and government.

With respect to northern Ontario development, the Ministry is supporting this region by working with the Ministry of Northern Development and Mines to create regional economic development plans.

The Ministry has informed us that it does not have the authority to integrate corporate income

tax, immigration and electricity rates because these activities are under the mandate of other ministries. The Ministry informed us that it collaborates with these other ministries through working groups and committees.

No Lead Appointed for Economic Development and Employment Programs across Ontario

Recommendation 2

To ensure appropriate oversight and co-ordination of economic development and employment funding, the Ministry of Economic Development and Growth should seek to become the lead ministry responsible for overseeing and achieving a comprehensive provincial strategy for economic development and employment programs and corporate income tax incentives for businesses.

Status: Little or no progress (0.5); will not be implemented (0.5).

Details

The Ministry has not sought to become the lead for overseeing all direct-to-businesses supports because it does not currently have access to information on other ministries' funds. For example, the Ministry does not oversee the Indigenous Economic Development Fund—Regional Partnership Grant or the Tourism Development Fund—Tourism Investment Attraction stream. However, it has become more involved in other ministries' direct-to-business supports.

Ontario Shared Services is helping the Ministry to gain access to the new Transfer Payment Common Registration system by March 2019. This new system launched in November 2016. The system contains organization profiles for all government-funding recipients and will help inform the Ministry's funding process. The Ministry expects to be able to use this system to determine whether an applicant has applied for or received other provincial funding, excluding corporate tax credits. Once it has access to this information, the Ministry will then consider whether it should seek to be the lead of economic development programs.

The Ministry is also consulting with the Ministry of Research, Innovation and Science; Ministry of Agriculture, Food and Rural Affairs; Ministry of Natural Resources and Forestry; and the Minister Responsible for Small Business to determine whether or not to transfer responsibility for their funds to the Jobs and Prosperity Fund. For example, the Forestry Growth Fund was transferred from the Ministry of Natural Resources and Forestry to the Jobs and Prosperity Fund in September 2015. The Ministry is currently incorporating the Rural Economic Development Program—previously administered by the Ministry of Agriculture, Food and Rural Affairs—into the Jobs and Prosperity Fund. This funding will be transitioned into another stream under the Jobs and Prosperity Fund by fall 2017.

As noted under the fourth bullet point of **Recommendation 1**, the Ministry has indicated that it does not have the authority to integrate corporate income tax into its oversight of economic development and economic programs in the province.

Lack of Centralized Administration Results in Inefficiencies

Recommendation 3

To ensure direct-to-business support funding is administered efficiently and cost effectively, the Ministry of Economic Development and Growth should seek government approval to take on the responsibility to centralize the back-office administrative functions of all other ministries that provide direct-to-business support. It should also work toward ensuring all businesses have a common unique identifying number that is used throughout government to allow for tracking of government support by various ministries.

Status: In the process of being implemented by March 31, 2020.

Details

As was the case at the time of our audit, the Ministry delivers business support programs under the various streams of the Jobs and Prosperity Fund on behalf of other ministries. Other ministries continue to administer their own funds. For example, the Ministry of Indigenous Relations and Reconciliation provides administrative support for its Indigenous Economic Development Fund—Regional Partnership Grant's direct-to-business funding, and the Ministry of Tourism, Culture and Sport provides this for the Tourism Development Fund—Tourism Investment Attraction stream. This back-office support can include reviewing applications for funding, monitoring contract results, and processing and tracking payments and budgeted costs.

Similar to the previous recommendation, the Ministry indicated that, when it has access to the Transfer Payment Common Registration system by March 31, 2019, it will then consider whether it will perform office administration functions for direct-to-business support programs administered by other ministries, and make a decision by March 31, 2020.

Regarding the use of a unique identifying number, starting in November 2016, companies receiving government funding are required to register on the Transfer Payment Common Registration system using their Canada Revenue Agency business number. This number will be used as a common unique identifying number across the provincial government. The Ministry expects to gain access to the new Transfer Payment Common Registration system by March 2019. The Ministry will then be able to use this system to determine whether an applicant has applied for or received other provincial funding, excluding corporate tax credits.

Recommendation 4

To ensure an appropriate amount of grant and loan funding is calculated for each project, the Ministry of Economic Development and Growth should take measures to ensure program staff are aware of all sources of government funding available for a given project, including corporate income tax credits, and consider these amounts when determining grant or loan funding.

Status: In process of being implemented by March 31, 2019 (0.5); little or no progress (0.5).

Details

As was the case at the time of our audit, applicants for the Jobs and Prosperity Fund, Eastern Ontario Development Fund, and Southwestern Ontario Development Fund, must sign and certify that they have disclosed all sources of other government funding. The contract terms and conditions permit the Ministry to terminate an agreement with a business if it is found that the company has not disclosed all such information.

The Ministry has increased opportunities for government staff to identify other sources of government funding that applicants have received. For example, starting in March 2016, the Ministry began sharing a list of fund applicants with the Ontario Ministry of Agriculture, Food and Rural Affairs.

By March 31, 2019, when the Ministry has access to the Transfer Payment Common Registration, it will be able to view all funding received by an applicant in other provincial programs, except for corporate income tax credits.

While the Ministry has indicated that it does not have responsibility over corporate income tax, and does not plan to integrate this area into its oversight of economic development and employment programs, it is in preliminary discussions with the Ministry of Finance on whether it can access information on corporate income tax credits to ensure program staff are aware of all funding.

Administration and Oversight of Ministry Programs

Recommendation 5

The Ministry of Economic Development and Growth should consider adding greater transparency in

accepting applications from all qualifying businesses. Such an approach could entail publicly communicating information on funds to the general public, associations, and targeted industries to ensure that all qualifying businesses are aware of the programs.
Status: Will not be implemented.

Details

As was the case at the time of our audit, the Jobs and Prosperity Fund's eligibility criteria are publicly available; however, an application package is still not publicly available. The Ministry has indicated that the Jobs and Prosperity Fund will remain an invitation-based process because the Ministry intends to target organizations that it believes are good candidates for funding, and that meet the program eligibility criteria. The Ministry contact information, consisting of its telephone number and email address, is still publicly available, and the Ministry indicated that interested applicants can make inquiries to the Ministry about the fund. The Ministry has also added a "request a conversation" button on its website. We continue to recommend that the Ministry should add greater transparency to the application process by publicly posting the application package so that all eligible companies may apply.

It should then use a fair and consistent process for selecting businesses to provide funding based on the merits of the applications, and ensure that the process used is clearly documented.
Status: Fully implemented.

Details

Applicants that meet the Jobs and Prosperity Fund's eligibility criteria may be considered, but are not guaranteed to be invited to progress to the next stage of the process. However, the Ministry now documents which projects were declined and the reasons they were declined. In the period between our 2015 audit and our follow-up ending March 31, 2017, the Ministry approved 25 projects and declined seven; others were withdrawn or are being reviewed.

Ministry Did Not Establish Whether Recipients Actually Needed Help

Recommendation 6

In ensuring that business support funding is allocated to companies that need it and have the largest impact on growing the economy, the Ministry of Economic Development and Growth should establish evaluation criteria that better assesses whether funding for projects is needed in order for the project to proceed.
Status: Fully implemented.

Details

Since our audit, as part of the evaluation process for the Jobs and Prosperity Fund, the Ministry has included quantitative factors to assess a company's need for funding, such as its debt-to-equity ratio. Also, the Ministry indicated that it faces competition from other jurisdictions for strategic investments. Therefore, it assesses whether government funding is necessary for the project to proceed and whether funding is necessary to secure the project in Ontario over competing jurisdictions.

Recommendation 7

The Ministry of Economic Development and Growth should establish project evaluation criteria that identify circumstances where it should require equity in projects in return for funding.
Status: In the process of being implemented by March 31, 2018.

Details

The Ministry is in the early stages of analyzing the cost/benefit and feasibility of taking royalties or equity in exchange for funding projects or companies through its three funds. An internal Ministry project team has been formed to carry out this work. The Ministry is working with the Ontario Financing Authority, Ministry of Finance and Ontario Capital Growth Corporation (an agency of the Ministry of Research, Innovation and Science) to determine available options for a new contract structure that would include taking equity as part

of the funding arrangement, as well as examining practices in other jurisdiction. The Ministry plans to decide by March 31, 2018 if it will require royalties or equity in future contracts.

Benefits of Support Programs Should Be Monitored, Reported on

Recommendation 8

In order to measure the success of its programs in strengthening the Ontario economy and achieving sustainable benefits, the Ministry of Economic Development and Growth should:

- *expand its current performance measures to include factors other than a project's investment and employment targets;*
  Status: In the process of being implemented by fall 2017.

Details

The Ministry is developing performance measures to assess results of projects under the Jobs and Prosperity Fund. These proposed measures are expected to indicate the effectiveness of funding and impact on the province's economy, in addition to the current practice of measuring investment and job creation targets. The Ministry plans to have key performance indicators ready for further discussion and planning by fall 2017. Interim performance measures being considered include, but are not limited to:

- investment in training, equipment and machinery, and information and communications technology;
- annual spending on research and development; and
- export sales into new markets.

At the time of our follow-up, the Ministry did not have plans to apply these key performance indicators to the Eastern Ontario Development Fund and Southwestern Ontario Development Fund since the primary goal of these projects was job creation and retention.

- *consider monitoring performance measures beyond the term of funding contracts to assess whether benefits to the economy continue after project completion.*
  Status: Fully implemented.

Details

Under the three active funds, the Ministry has revised all funding contracts drafted as of July 2016. Fund recipients must now provide annual reports of results for three years after the project is complete. The recipient is required to report financial results related to the project, including cash flow from operations, net income and total sales. The recipient is also required to report the number of active employees at the project facility.

The Ministry has hired a third party to assess the impact of a sample of projects since their completion. This review is limited primarily to the Eastern Ontario Development Fund because the fund launched in 2009 and typically projects span four years; the other two funds do not have complete projects yet. The review is currently being finalized.

More Care Needed in Reporting Results Publicly

Recommendation 9

To ensure that communications of project results to the public are accurate and complete, the Ministry of Economic Development and Growth should publicly report on its website:

- *all funding commitments and the names of all projects and companies contracted with, including clarifying whether announcements are duplicate to previous ones made; and*
  Status: In the process of being implemented by March 31, 2018.

Details

Starting in September 2016, information related to the Ministry's completed projects became available online under each of the current three

funds administered by the Ministry. Publicly available information includes the funding program, organization name, organization location, fiscal year the contract was signed, dollar amount of the government funding commitment, and the total commitment for the number of jobs to be created and retained. By fall 2017, the Ministry is planning to publish the same information for funds it previously administered that are now closed.

Also, for current projects that are not completed yet, the Province plans to make commitments regarding investment and job creation and retention publicly available through the Open Data initiative by March 2018. If new funds or funding streams under the Jobs and Prosperity Fund are announced, the Ministry informed us that it will work with its communications branch to ensure there will be no duplicate funding announcements.

- *accurate actual results for each project compared to commitments and targets previously announced.*

  Status: In the process of being implemented by March 31, 2018.

Details

As was the case at the time of our audit, the Ministry does not make public the actual results of funded projects, such as the actual number of jobs created and retained compared to the contract commitment. It cited concerns regarding commercial sensitivity. Consequently, the Ministry does not intend to release individual project results. However, the Ministry informed us that it will make public the overall actual results by fund and by industry by March 31, 2018.

Chapter 1
Section
1.05

Ministry of Energy

Electricity Power System Planning

Follow-Up on VFM Section 3.05, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	4	3			1
Recommendation 2	2	2			
Recommendation 3	4	1	3		
Recommendation 4	3	1	2		
Recommendation 5	3		3		
Total	**16**	**7**	**8**	**0**	**1**
%	**100**	**44**	**50**	**0**	**6**

Overall Conclusion

According to the information the Ministry of Energy (Ministry) provided to us, as of August 4, 2017, about 44% of the actions we recommended in our *2015 Annual Report* had been fully implemented, specifically in the areas of engaging the Independent Electricity System Operator (IESO) and other technical experts during the decision-making process and providing more public information for electricity consumers about the impacts of various decisions made. The Ministry was in the process of implementing 50% of our recommendations, mainly in the areas of working with the IESO and other technical experts to determine the optimal supply mix for Ontario; conducting cost/benefit analysis to assess the impact of decisions on electricity consumers and the power system; monitoring, addressing and publicly reporting on the extent and impact of oversupply of electricity; evaluating various conservation initiatives; addressing current capacity and reliability issues; and performing analysis prior to undertaking major initiatives that would impact transmission. The Ministry will not implement one recommendation, specifically in the area of submitting full technical reports to the Ontario Energy Board for review and approval.

The status of the actions taken on each of our recommendations is described in this report.

Background

Electricity power system planning involves managing the long-term demand for electricity, and determining how to meet that demand through generation, transmission, distribution, exporting, importing and conservation of electricity.

In Ontario, entities involved in province-wide power system planning include the Ministry of Energy (Ministry), the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB), Ontario Power Generation (OPG), Hydro One, four other small licensed transmitters and approximately 70 local distribution companies.

The importance of planning is reflected in provincial legislation: The *Electricity Act, 1998* was amended in 2004 to require the Ontario Power Authority, or OPA (which was subsequently merged with the IESO in 2015), to conduct independent planning, prepare a detailed technical plan and submit it to the OEB for review and approval to ensure that it is prudent and cost-effective.

However, as of our 2015 audit, no such plan had ever been approved in the previous 10 years as required by the legislation to protect consumers' interests. Instead, the Ministry had issued two policy plans in 2010 and 2013 that were not subject to OEB review and approval. While these policy plans provided some technical information, we found that they were not sufficient for addressing the Ontario power system's needs and for protecting electricity consumers' interests.

While the checks and balances of the legislated planning process were not followed, the Ministry made a number of decisions about power generation through 93 ministerial directives and directions issued to the OPA from 2004 to 2014. Some of these went against the OPA's technical advice and did not fully consider the state of the electricity market or the long-term effects. These decisions resulted in significant costs to electricity consumers. From 2006 to 2014, the amount that residential and small-business electricity consumers paid for the electricity commodity portion of their bill (including Global Adjustment fees) increased by 70%, from 5.32 cents/kWh to 9.06 cents/kWh. In particular, Global Adjustment fees, which are the excess payments to generators over the market price, amounted to a total of $37 billion from 2006 to 2014. These payments are projected to cost electricity consumers another $133 billion from 2015 to 2032.

Among our significant observations:

- We calculated that electricity consumers have had to pay $9.2 billion more (the IESO calculated this amount to be closer to $5.3 billion, in order to reflect the time value of money) for renewables over the 20-year contract terms under the Ministry's current guaranteed price renewable program than they would have paid under the previous procurement program.
- In January 2010, the OPA expressed concerns to the Ministry after the Lower Mattagami hydro project's estimated costs increased by $1 billion from the initial estimate. The Ministry directed the OPA to proceed in order to meet the Ministry's renewable targets, and to invest in Indigenous communities and the economy of Northern Ontario. The average cost for power from this facility is $135/MWh, while the average cost of electricity produced at two other recent hydro projects outside of the Mattagami River area in Ontario is $46/MWh.
- The Ministry directed the OPA to convert a Thunder Bay coal plant into a biomass facility despite OPA's advice that the conversion was not cost-effective. The cost of electricity from this facility is $1,600/MWh—25 times higher than the average cost at other biomass facilities in Ontario.
- The Ministry directed the OPA to cancel contracts for two gas plants planned for the southwest Greater Toronto Area, where the need for them was greatest, and relocate them to Napanee and Lambton. Our 2013 special

reports on the Oakville and Mississauga power plants set cancellation costs at $950 million.

- At the time of our 2015 audit, Ontario had an oversupply of electricity, with its available supply exceeding its maximum hourly consumption by an average of 5,160 MW per year from 2009 to 2014—an amount approximately equal to the total existing power generation capacity of the province of Manitoba. Meanwhile, Ontario had spent approximately $2.3 billion in conservation programs between 2006 and 2014, and was committed to spend another $2.6 billion over the next six years. While we recognize that conservation efforts require sustained commitment, investing in conservation during a time of surplus actually contributes to expensive electricity curtailments and exports that cost the Province money.
- Due to the excessive surplus, Ontario had to pay generators $339 million from 2009 to 2014 to reduce the production of 11.9 million MWh of surplus electricity, and $3.1 billion more to produce 95.1 MWh of exported power in excess of what Ontario received in export revenue. As well, there were almost 2,000 hours in which the hourly Ontario electricity market price was negative, and Ontario paid other exporters a net total of $32.6 million to take our power.
- We found that the lack of a structured, coordinated regional planning process has had ongoing negative effects on the performance of the transmission system, including reliability concerns and congestion issues that cost a total of $407.6 million in payments to generators.

Our audit report recommended, among other things, that the Ministry require full technical plans to be prepared and submitted to the OEB for review and approval; regularly engage with the IESO, OPG, Hydro One, approximately 70 local distribution companies, and other technical experts to consider different scenarios and evaluate cost-effectiveness during the decision-making process; assess the effects of conservation and its impact on electricity costs during surplus generation periods; evaluate conservation and demand-management programs to ensure they meet cost-effectiveness tests; and work with the IESO, Hydro One and other small transmitters to minimize any unnecessary cost to electricity consumers due to transmission reliability concerns and congestion issues.

This report contained five recommendations, consisting of 16 actions, to address our audit findings.

Most of the Ministry's responses to our recommendations referred to recently introduced draft legislation (Bill 135). Our office was not in a position to comment on the merits of this draft legislation, nor could we assess at that point in time whether the changes proposed in the draft legislation would meet the intent of our recommendations.

Standing Committee on Public Accounts

In November 2016, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2015 Electricity Power System Planning audit. In March 2017, the Committee tabled a report in the Legislature resulting from this hearing. The Committee endorsed our findings and recommendations. The Committee made 10 additional recommendations and asked the Ministry and the IESO to report back by the end of July 2017. The Committee's recommendations and follow-up on their recommendations are found in **Chapter 3.02**.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and August 4, 2017, and obtained written representation from the Ministry of Energy (Ministry)

that, effective September 1, 2017, it has provided us with a complete update of the status of the recommendations we made in the original audit two years prior.

Planning Process Has Broken Down

Recommendation 1

To ensure that electricity power system planning better protects the interests of electricity consumers, the Ministry of Energy should comply with provincial legislation and:

- *clarify the roles of the Ministry of Energy and the Independent Electricity System Operator in preparing future technical plans;*
  Status: Fully implemented.

Details

In our 2015 audit, we noted that the *Electricity Act, 1998* was amended in 2004 to require the Ontario Power Authority (OPA, now merged with the IESO) to conduct independent planning and prepare an "Integrated Power System Plan" (referred to hereafter as the "technical plan") to guide the Province in achieving its energy goals. The OPA/IESO merger legislation, passed in 2014, still requires the new entity, the IESO, to prepare a technical plan. However, after the merger took place in 2015, the Ministry did not provide the IESO with any direction regarding the preparation of the technical plan.

Subsequent to our audit, the *Energy Statue Law Amendment Act, 2016* was proclaimed into force on July 1, 2016. The Act amended the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* to clarify the roles of the Ministry and the IESO in future energy planning. Under the new legislation, the IESO is required to develop a technical report, which supports the development of the Long-Term Energy Plan (LTEP).

On September 1, 2016, the IESO submitted the technical report, Ontario Planning Outlook (OPO), to the Ministry. The OPO technical report presented different planning scenarios for the electricity sector over 20 years, from 2016 to 2035. In addition to the OPO technical report, the Ministry also engaged a third party to prepare another technical report, the Fuel Technical Report (FTR). Released on September 30, 2016, it provides a review of fuel consumption and outlooks from 2016 to 2035. Both the OPO and FTR reports have been posted on the Ministry's website for public consultation and engagement.

At the time our follow-up, the Ministry was in the process of developing the LTEP, based on information from the two technical reports as well as feedback obtained through public consultation and engagement, which took place from October 2016 to January 2017. The Ministry expects to finalize and release the LTEP in fall 2017.

- *require full technical plans to be prepared on time and ensure that they are submitted to the Ontario Energy Board for review and approval;*
  Status: Will not be implemented. The Office of the Auditor General continues to believe the Ontario Energy Board should review and approve the Long-Term Energy Plan in order to protect the interests of electricity ratepayers.

Details

Our 2015 audit found that, although having a technical plan had been a legal requirement for over a decade, the Province had never had such a plan in place. From 2004 until the time of its merger with the IESO in 2015, the OPA developed two technical plans, in 2007 and 2011; however, neither of these was ever approved by the OEB because of changes to government policy. Since the OEB was not given an opportunity to review the plans as required under the *Electricity Act, 1998*, it had not been able to ensure that Ontario's technical energy planning had been carried out in a prudent and cost-effective manner to protect the interests of electricity consumers.

The *Energy Statute Law Amendment Act, 2016*, which was passed subsequent to our 2015 audit, has changed the electricity planning process in Ontario. As previously mentioned, the IESO, as required, submitted the OPO technical report to the Ministry on September 1, 2016. Under the new legislation, the Ministry is responsible for developing the LTEP after thorough consideration of the technical report and feedback obtained through public consultation.

While a public consultation process has been put in place as part of the development of the LTEP, the IESO's technical report and the LTEP are not required to be submitted to the OEB for review and approval. The OEB is only responsible for preparing an implementation plan when the Ministry requests it to ensure that the government's goals and expectations outlined in the LTEP are implemented. In other words, the new long-term energy planning process does not enable the OEB to review and approve the plans as an independent regulator.

- *provide more public information for electricity consumers about the cost drivers of increasing electricity rates and the impact that various decisions have on electricity costs;*
  Status: Fully implemented.

Details

Our 2015 audit found that electricity consumers were not informed of the reasons behind rising electricity costs. Although the Ministry's 2013 policy plan identified actions taken by the government to reduce electricity costs, it failed to identify the key cost drivers that had the most significant effect on electricity rates.

As part of the LTEP public engagement and consultation process, the Ministry has provided consumers with more information about the cost drivers of increasing electricity rates and the impact that various decisions have on electricity costs.

The IESO developed seven modules with data and analyses to provide a detailed breakdown of the assumptions, facts and figures used in its OPO technical report. One of the modules—Electricity System Cost Outlook—illustrated the cost of the electricity system under different demand scenarios (low, flat and high) to show how the cost of delivering, operating and maintaining electricity resources (conservation, generation and transmission/distribution), and the extent to which investments are made in new resources, vary with the level of electricity demand.

The OPO report and related modules were released ahead of the LTEP's public engagement and consultation process, which began in October 2016.

- *review the role of the Ontario Energy Board to determine how it can be made more effective in protecting the interests of electricity consumers.*
  Status: Fully implemented.

Details

Our 2015 audit noted that the Ministry had set aside the regulatory role of the OEB even though one of the OEB's key objectives is to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

Subsequent to our audit in 2015, the *Strengthening Consumer Protection and Electricity System Oversight Act, 2015* was proclaimed into force on March 4, 2016. The Act amended the *Ontario Energy Board Act, 1998* and the *Energy Consumer Protection Act, 2010* to enhance the OEB's role in regulating the energy sector in order to protect the interests of electricity consumers. Key changes brought about by the Act include:

- implementing the OEB's recommendation of prohibiting electricity retailers and gas marketers from selling energy retail contracts to consumers at their home;
- giving the OEB the power to determine how an electricity retailer or gas marketer determines the prices it charges for electricity and gas;

- requiring the OEB to establish a process for consumer representation in its proceedings;
- allowing the OEB to appoint a supervisor in situations where a distributor or transmitter is unable to meet its financial obligations or reliability standards to ensure continuity of service for affected consumers; and
- providing the OEB with stronger enforcement powers by allowing it to increase penalties on individuals and corporations that have violated the OEB's rules and directions.

Extensive Use of Ministerial Directives and Directions

Recommendation 2

To ensure that ministerial directives and directions fully consider both the technical-system impacts and economic impacts that affect electricity consumers, the Ministry of Energy should:

- *regularly engage with the Independent Electricity System Operator and other technical expert advisors during the decision-making process;*
  Status: Fully implemented.

Details

Our 2015 audit found that, in the absence of an approved technical plan, it had been the Ministry's practice to communicate its energy policy objectives by issuing directives and directions to the OPA (now the IESO). The OPA/IESO often could not apply its own expertise because the rationale behind many of the ministerial directives and directions was not apparent. The Ministry issued over 90 directives and directions to the OPA from the time of its creation in 2004 to its merger with the IESO in 2015. Through them, it made a number of decisions that sometimes went against the OPA's technical advice.

During our follow-up, we found that the Ministry has engaged with the IESO and other technical expert advisers during its decision-making process in developing the LTEP. As previously mentioned under the first action of **Recommendation 1**, the IESO submitted the OPO technical report to the Ministry on September 1, 2016. The OPO report presented different planning scenarios for the electricity sector from 2016 to 2035. In addition to the OPO report, the Ministry also engaged a third party to prepare another technical report, the Fuel Technical Report. Released on September 30, 2016, it provides a review of fuel consumption and outlooks from 2016 to 2035.

At the time of our follow-up, the Ministry was in the process of developing the LTEP, based on information from the two technical reports as well as feedback from public consultation and engagement. The Ministry expected to finalize and release the LTEP in fall 2017.

- *make the decision-making process more transparent and accountable by providing information to the public on directives, directions and rationales for decisions made.*
  Status: Fully implemented.

Details

In our 2015 audit, we found that the Ministry's use of directives and directions to make major decisions had resulted in a process that was less than open and transparent. We found no evidence that ministerial directives and directions were supported by public consultations or economic analyses disclosed to the public.

All directives and directions sent to the IESO have been and are to continue to be publicly posted on the IESO's website. We noted that the Ministry has issued seven directives to the IESO subsequent to our 2015 audit. Our review of these directives noted that they included background information and details explaining the context of and rationale for policy objectives.

As previously mentioned under the first action of **Recommendation 1**, at the time of our follow-up, the Ministry was in the process of developing the LTEP. During the public consultation process, which took place from October 2016 to January 2017, the Ministry held stakeholder sessions

and public open houses in 17 communities across Ontario. It also held 17 sessions with Indigenous communities and organizations. Overall, the Ministry received over 1,500 submissions through its Environmental Registry, emails and other channels. The Ministry is required by the *Electricity Act, 1998* to post all information and data used in the development of the LTEP, including the IESO's OPO report and feedback from public consultation, on a Ministry website.

Problems with Generation Procurement Decisions

Recommendation 3

To ensure that future power generation decisions are made with sufficient economic and financial information that would best serve electricity consumers and Ontario's electricity power system, the Ministry of Energy should:

- *work with the Independent Electricity System Operator, Ontario Power Generation, Hydro One, approximately 70 local distribution companies and other technical experts to determine the optimal supply mix for Ontario;*
  Status: In the process of being implemented in fall 2017.

Details

Our 2015 audit found that the Ministry did not fully consider the state of the electricity market or the long-term effects different supply-mix scenarios would have on Ontario's power system in making some decisions about power generation.

During our follow-up, we noted that the Ministry has been working with the IESO and other technical experts to determine the optimal supply mix for Ontario as part of its process of developing the LTEP. As mentioned under the first action of **Recommendation 1**, the IESO developed the OPO technical report, which outlined electricity supply and demand outlooks from 2016 to 2035. The OPO report outlined the value of a balanced supply-mix approach that does not rely too heavily on any one source of electricity generation. According to the OPO report, "maintaining a diverse resource mix, where the different resources are complementary to each other, is an effective way to provide the various services necessary to support reliable and efficient operations."

In addition to engaging the IESO to determine the optimal supply mix for Ontario, the Ministry has also collected feedback from Ontario Power Generation, Hydro One and several local distribution companies through the LTEP's public consultation process.

- *engage the Independent Electricity System Operator, Ontario Power Generation, Hydro One, approximately 70 local distribution companies and other technical experts to consider different scenarios and evaluate cost-effectiveness when making decisions on new projects;*
  Status: Fully implemented.

Details

Our 2015 audit found that, through issuing directives and directions, the Ministry made a number of decisions that sometimes went against the OPA's technical advice and did not fully consider the long-term effects different scenarios would have on Ontario's power system. For example, the Ministry directed the OPA to create the Feed-in Tariff (FIT) program, which has paid excessive prices to renewable energy generators. It also directed the OPA to proceed with a costly hydro project.

At the time of our follow-up, we noted that the Ministry has engaged the IESO and other technical experts to consider different scenarios and evaluate cost-effectiveness when making decisions on the projects that were initiated subsequent to our 2015 audit. For example:

- As mentioned under the first action of **Recommendation 1**, the Ministry is required to develop the LTEP by thoroughly considering the IESO's technical report, different scenarios, and possible risks and uncertainties with

respect to planning for the energy sector. The Ministry has also engaged other experts who provided input during the public consultations that took place from October 2016 to January 2017.

- The Ministry has directed the IESO to conduct in 2016 an annual price review of the FIT program. The resulting 2016 and 2017 FIT price schedules have incorporated feedback from stakeholders, including the local distribution companies. The review has resulted in reductions of FIT prices, ranging from 0.5% to 7%, for new renewable projects, depending on project size and technology.
- In 2016, the IESO initiated the Market Renewal Project (Project), which has the objective of delivering "a more efficient, stable marketplace with competitive and transparent mechanisms that meet system and participant needs at the lowest cost." Still in its early phase of development, the multi-year Project's design and implementation are to run from 2017 to 2021. The Ministry indicated that decisions on the future power system will be determined using market-based mechanisms introduced as part of the Project to reduce system costs, improve transparency and provide flexibility as Ontario's power system needs evolve. The series of reforms to the energy market system that the Project is intended to introduce will draw upon learning from experiences in other jurisdictions. At the time of our follow-up, the IESO was in the process of engaging with stakeholders to build consensus for and public awareness of the design and implementation of the Project.

- *conduct cost/benefit analyses during the planning process to assess the potential impact of a decision on electricity consumers and the power system;*

  Status: In the process of being implemented in fall 2017.

Details

Our 2015 audit found that the Ministry made a number of decisions that sometimes went against the OPA's technical advice. Many of these decisions resulted in significant costs to electricity consumers. For example, the Ministry significantly increased the proportion of renewable energy in Ontario's supply mix, but it did so without fully evaluating the impact, trade-offs and alternatives through a comprehensive business case analysis.

As mentioned under the first action of **Recommendation 1**, the Ministry was in the process of developing the LTEP at the time of our follow-up. As part of the development of the LTEP, the Ministry will conduct cost/benefit analyses to assess the potential impact of decisions on electricity consumers and the power system. The LTEP is expected to be released in fall 2017.

- *closely monitor, address, and publicly report on the extent and impact of the oversupply of electricity.*

  Status: In the process of being implemented by 2021.

Details

Our 2015 audit found that Ontario experienced an oversupply of electricity. From 2009 to 2014, the province's available electricity supply exceeded its maximum hourly consumption by 5,160 MW per year, on average—an amount that approximated the total existing power generation capacity of the province of Manitoba. The IESO managed surplus electricity supply by exporting power to other jurisdictions and requesting some generators to curtail or completely shut down production.

During our follow-up, we noted that the Ministry has continued to use the Ontario Energy Report, which is a website updated quarterly to provide the public with energy-sector data such as electricity cost, supply, demand and exports during times of surplus generation.

In addition, the IESO has monitored the extent of oversupply of electricity and publicly reported

electricity demand and supply through issuing Market Summaries on a regular basis (daily, weekly and monthly). As part of the OPO technical report submitted to the Ministry for developing the LTEP, the IESO has also publicly reported the forecast surplus power based on different scenarios of electricity demand in Ontario.

As previously mentioned, the IESO has initiated the Market Renewal Project, which is a multi-year project with the design and implementation running from 2017 to 2021. Through this project, the IESO is planning to introduce specific measures to address and manage oversupply of electricity by removing barriers to trading power with neighbouring jurisdictions.

Ineffective Conservation and Demand-Management Initiatives

Recommendation 4

To ensure that its conservation and demand management programs are implemented cost effectively and achieve their intended purposes, the Ministry of Energy should work with the Independent Energy System Operator to:

- *assess the effects of conservation and its impact on electricity costs during surplus generation periods;*
  Status: In the process of being implemented in fall 2017.

Details

Our 2015 audit found that the Ministry continued to invest in conservation efforts when Ontario already had significant surplus power. Investing in conservation does not necessarily mean saving money during periods of surplus, because energy savings from conservation efforts can contribute to an oversupply of electricity, increasing power exports and/or curtailing power production. Ontario had to export power at prices below what it cost to produce that power, and had to pay generators even when they were not producing energy; both of these options were costly.

During our follow-up, the Ministry indicated that, as part of the process of developing the LTEP, it will work with the IESO to model and consider the impacts of conservation initiatives on electricity costs during surplus generation periods. At the time of our follow-up, the Ministry was in the process of developing the LTEP, which it expected to release in fall 2017.

- *evaluate programs, such as various conservation initiatives and the Industrial Electricity Incentive Program, to ensure that they support the Ministry's goals and objectives;*
  Status: In the process of being implemented by June 1, 2018.

Details

Our 2015 audit found that, although the IESO was accountable for $2.1 billion of the $2.3 billion that was spent on conservation initiatives in Ontario from 2006 to 2014, only about $923 million of this $2.1 billion was evaluated by a third party for cost-effectiveness.

During our follow-up, we found that the Ministry has worked with the IESO to evaluate various conservation programs as part of a new initiative, the Conservation First Framework, which was introduced subsequent to our 2015 audit. The Framework covers the implementation of conservation programs over six years from 2015 to 2020, emphasizing more teamwork among sector partners, particularly the local distribution companies (LDCs).

Under the Framework, the Ministry and the IESO will continue to perform ongoing evaluation of conservation programs, mainly through the following two processes, to ensure that the programs support provincial needs cost effectively:

- The LDCs are required to develop their own six-year Conservation and Demand Management Plans for delivering conservation programs. These plans include milestones, budgets and expected energy savings. The LDCs have submitted their plans to the

IESO for review and approval. The IESO has posted on its website the plans that have been approved.

- The LDC conservation programs are subject to the IESO's Evaluation, Measurement and Verification (EM&V) process to ensure that they maintain a positive cost-benefit result (with specific exceptions, such as programs for low-income consumers), achieve their intended goals, provide value for consumers and identify opportunities for improvement. The IESO has published evaluation reports on various conservation programs, such as the Aboriginal Conservation Program, Home Assistance Program and New Construction Program.

At the time of our follow-up, the IESO was undertaking a mid-term review of the Framework. The review focuses on conservation targets, budgets, progress, program effectiveness, integration with regional planning, collaboration amongst the LDCs and post-2020 approaches to energy efficiency. The mid-term review is to be completed by June 1, 2018.

- *set appropriate and reasonable peak-consumption reduction targets, and regularly monitor, track and publicly report on the progress made in meeting them.*

  Status: Fully implemented.

Details

Our 2015 audit found that, although the OPA (now the IESO) advised the Ministry that a peak demand reduction of 1,800 MW by 2025 was a reasonable and prudent conservation target, the Ministry directed the OPA to set a target of 6,300 MW by 2025. In 2010, the Ministry further increased its target to 6,700 MW by 2025, and set an interim peak demand reduction target of 4,550 MW by 2015. An evaluation of OPA-managed programs showed that this interim target was not achieved by the end of 2014.

During our follow-up, the Ministry indicated that Ontario currently has a long-term peak reduction target to reduce peak electricity demand by 10% in 2025, equivalent to approximately 2,400 megawatts (MW) under 2013 forecast conditions. This target was set in the 2013 Long-Term Energy Plan (LTEP) and was expected to be met by using demand-response initiatives (programs that temporarily reduce electricity use during periods of peak demand), such as the Industrial Conservation Initiative, Capacity-Based Demand Response, demand response pilots and time-of-use pricing. The Ministry informed us that it will evaluate this target based on the supply and demand outlooks in the next LTEP, which was in the process of development during our follow-up and is expected to be completed in fall 2017.

The IESO has monitored the progress made in using demand-response initiatives to meet the 10% peak-demand reduction target. In its Ontario Planning Outlook report published in September 2016, the IESO noted that the total amount of demand response capacity in 2015 was about 1,700 MW.

The Environmental Commissioner of Ontario (ECO) has also monitored and publicly reported on the progress made in meeting this target in its Annual Energy Conservation Progress Report. Our review of the latest report released by the ECO in May 2016 found that, since several demand-response initiatives were still being developed in 2015, results were not available yet to determine the progress of achieving the target. The report also indicated that the target may be subject to change because it was set based on forecasts made in the 2013 LTEP.

As part of the development process of the next LTEP, the Ministry will evaluate the current peak-consumption reduction target.

Problems with Transmission System Planning

Recommendation 5

To ensure that Ontario's transmission system has sufficient capacity to reliably transfer electricity from the province's generators to where power is needed, the

Ministry of Energy should work with the Independent Electricity System Operator, Hydro One and other local distribution companies to:

- *address current capacity and reliability issues, and identify what is required to support future electricity demand growth;*
  Status: In the process of being implemented in fall 2017.

Details

Our 2015 audit found capacity and reliability issues in a number of regions where the majority of transmission lines exceeded, reached or were close to reaching their capacity, and were not expected to be capable of meeting significant increases in peak demand. The OPA (now the IESO) identified these issues in its 2007 Integrated Power System Plan, which was never approved or implemented. Although work was under way at the time of our 2015 audit on projects to address these needs, the issues remained unresolved.

During our follow-up, the Ministry indicated that the LTEP will address capacity and reliability issues relating to transmission and distribution systems, and identify what is required to support future electricity demand growth.

As mentioned under the first action of **Recommendation 1**, the IESO submitted the OPO technical report on September 1, 2016, to the Ministry for it to use in developing the LTEP. We found that the OPO report included a series of modules that provide a detailed breakdown of the assumptions, facts and figures in the report. One of the modules—Market and System Operations and Transmission and Distribution Outlook—examined key planning and operational considerations, such as potential transmission investments to facilitate integration of new resources and associated impacts on the transmission and distribution systems.

In addition, the IESO has been working with local distribution companies and transmitters to ensure regional issues and requirements are integrated into electricity planning. At the time of our follow-up, the first cycle of regional planning by the IESO was under way, covering 21 electricity regions across the province (based on electrical infrastructure boundaries). Regional planning will look at each region's unique needs and consider conservation, generation, transmission and distribution to meet these needs. Electricity needs in all regions will be reviewed every five years or sooner, if needed. The IESO has posted on its website the status of regional planning activities, including specific regional updates and plans. The OEB has also posted on its website the annual reports filed by transmitters showing the status of their regional planning.

At the time of our follow-up, the Ministry was in the process of developing the LTEP, which it expected to complete in fall 2017.

- *investigate the root causes of the increasing volume of generator constraints and thereby minimize any unnecessary cost to electricity consumers;*
  Status: In the process of being implemented by 2021.

Details

Our 2015 audit found that changes in regional demand and changes in supply mix to support the phasing out of coal, along with significant increases in renewable energy, changed the flow patterns in the power system, contributing to increases in transmission constraints. The amount of compensation the IESO had to pay generators also increased, because generators are usually entitled to compensation payments when the IESO is required to constrain the output of generation facilities.

As mentioned under the second action of **Recommendation 3**, in 2016, the IESO initiated the Market Renewal Project, which is a multi-year project over the period from 2017 to 2021 with the objective of delivering "a more efficient, stable marketplace with competitive and transparent mechanisms that meet system and participant needs at the lowest cost." The Ministry indicated

that the Project will investigate the root causes of the increasing volume of generator constraints and introduce specific measures to address the issue in order to minimize unnecessary costs to electricity consumers going forward.

As an initial step, the IESO has engaged a third party to conduct a cost/benefit assessment to understand the net benefits from the proposed design of the Project. According to the assessment report completed in April 2017, the volume of generator constraints and associated electricity costs can be reduced through changes to the current system used by the IESO in administering the electricity market and determining electricity prices. At the time of our follow-up, the IESO was in the process of engaging with stakeholders to build consensus for and public awareness of the design and implementation of the Project.

- *perform adequate system planning and analysis prior to undertaking any major initiatives that would impact transmission.*
  Status: In the process of being implemented in fall 2017.

Details

Our 2015 audit found that the lack of a structured, co-ordinated planning process had ongoing negative effects on the performance of the transmission system. For example, many renewable energy projects could not proceed because there was not enough transmission capacity. In addition, although importing power from neighbouring jurisdictions would have been a viable alternative to procuring renewable energy sources, there was no cost/benefit analysis of increasing transmission capacity to accommodate imports.

During our follow-up, the Ministry indicated that the LTEP will include system planning and analysis prior to undertaking initiatives that would impact transmission. The LTEP will further address the reliability of energy supply and capacity, transmission and distribution. At the time of our follow-up, the LTEP was in the process of being developed and was expected to be completed in fall 2017.

In addition, the Ministry indicated that, at a regional level, the electricity needs of all of Ontario's 21 planning regions have been evaluated over the past three years. This evaluation focused on each region's unique needs and considered conservation, generation, transmission and distribution, and innovative resources to meet these needs. The Ministry also noted that Integrated Regional Resource Plans and Regional Infrastructure Plans have been completed and are publicly available on the IESO's and Hydro One's websites, respectively. Our review found that these plans included transmission impacts, among other considerations.

Chapter 1
Section
1.06

Hydro One—Management of Electricity Transmission and Distribution Assets

Follow-Up on VFM Section 3.06, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW						
	# of	Status of Actions Recommended				
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	3					3
Recommendation 2	2					2
Recommendation 3	3				2	1
Recommendation 4	1					1
Recommendation 5	5		2			3
Recommendation 6	1					1
Recommendation 7	3	2				1
Recommendation 8	1					1
Recommendation 9	2	1				1
Recommendation 10	2				1	1
Recommendation 11	1					1
Recommendation 12	2				1	1
Recommendation 13	2	1				1
Recommendation 14	1					1
Recommendation 15	2					2
Recommendation 16	1					1
Recommendation 17	4					4
Total	**36**	**4**	**2**	**0**	**4**	**26**
%	**100**	**11**	**6**	**0**	**11**	**72**

Overall Conclusion

As of July 26, 2017, for about 72% of our recommendations, Hydro One did not provide enough information and/or supporting documents for us to follow up with review-level assurance. As a result of the *Building Ontario Up Act, 2015* (Act), our Office no longer has the ability to conduct value-for-money audits at Hydro One or to follow up on the implementation status of recommendations from our audits conducted prior to the tabling of the Act on December 4, 2015. Since Hydro One was not required to participate in our follow-up work, we categorized these recommendations as no longer applicable.

For about 11% of our recommendations, we were able to obtain sufficient additional information ourselves to state with review-level assurance that these recommendations had been fully implemented. These were in the areas of Hydro One conducting benchmarking studies with other similar utilities relating to cost and performance, and developing strategies to improve its reliability.

For a further 6% of our recommendations, we were able to obtain sufficient additional information ourselves to state with review-level assurance that the recommendations were in the process of being implemented. These were mainly in the areas of Hydro One improving the quality of its data and enhancing the functions of an asset investment planning system called Asset Analytics.

Hydro One will not implement 11% of our recommendations, specifically those dealing with reassessing its practice of replacing assets that were rated as being in good condition before replacing assets in very poor condition, replacing assets that exceeded their planned useful service life, and shortening the vegetation-management cycle from 9.5 years to four years.

We encouraged the Ontario Energy Board (OEB) to follow up on the status of 72% of our recommendations that we previously mentioned.

The status of each of our recommendations is summarized in this report.

Background

Hydro One Inc. (Hydro One) owns one of the largest electricity delivery systems in North America, operating in three main areas that involve:

- moving electricity from power generators to large industrial customers and to most of Ontario's local distribution companies through an extensive high-voltage transmission network;
- operating, through wholly owned subsidiaries, its own distribution system that serves about 1.4 million residential and business customers; and
- managing a telecommunications system that monitors and remotely operates its transmission equipment.

Hydro One's total revenues were $6.548 billion in the year ending December 31, 2014, while operating and other costs were $5.801 billion, for a net income of $747 million. Hydro One's transmission, distribution and telecommunication net assets were valued at about $16.2 billion.

Hydro One's mandate is to be a safe, reliable and cost-effective transmitter and distributor of electricity. However, our audit found that Hydro One's transmission and distribution system reliability was worsening, while costs to maintain and improve the system were increasing and customers were experiencing more frequent power outages. Hydro One spent over $1 billion annually from 2012 to 2014 on capital projects to sustain its transmission and distribution systems.

Some of the more significant issues we noted relating to Hydro One's transmission system included the following:

- Overall, Hydro One's transmission system reliability worsened in the five years from 2010 to 2014, with outages lasting 30% longer

and occurring 24% more often. In the same time period, Hydro One's spending to operate the transmission system and replace assets that were old or in poor condition increased by 31%. It should be noted that Hydro One's overall transmission system reliability still compared favourably to other Canadian transmitters, but had worsened in comparison to U.S. transmitters.

- Hydro One's backlog of preventive maintenance orders on its transmission system equipment increased 47% between 2012 and 2014, which contributed to equipment failures.
- Hydro One failed to replace 14 of the 18 transmission transformers it reported to be in very poor condition in its 2013–14 rate application to the Ontario Energy Board (OEB). Over the same two-year period, it replaced 37 other transformers reported in better condition. We found that two of the transformers rated in very poor condition in the OEB rate application, but not replaced, failed and resulted in outages to customers lasting 200 minutes in 2013 and 220 minutes in 2015.
- The risk of power failures can increase without an effective program for replacing transmission assets that have exceeded their planned useful service life. The number of key transmission assets, such as transformers, circuit breakers and wood poles, in service beyond their normal replacement date ranged from 8% to 26%. Replacing these assets would eventually cost Hydro One an estimated $4.472 billion, or over 600% more than its $621-million capital sustainment expenditure for 2014.

Some of the more significant issues we noted relating to Hydro One's distribution system included the following:

- Hydro One's distribution system had consistently been one of the least reliable among large Canadian electricity distributors between 2010 and 2014. The average duration of outages reported by members of the Canadian Electricity Association (CEA) between 2010 and 2014 was about 59% less than the duration of Hydro One's outages over the same period, while the average frequency of outages among CEA members was 30% lower.
- The principal cause of Hydro One's distribution system outages from 2010 to 2014 was broken power lines caused by fallen trees or tree limbs. Hydro One operates on a 9.5-year vegetation-management cycle, while 14 of its peer utilities operate on an average 3.8-year cycle. Hydro One's own analysis indicated that the vegetation-management work it did in 2014 cost $84 million more than it would have under a four-year cycle, and customers would have experienced fewer outages caused by trees.
- Hydro One installed 1.2 million smart meters on its distribution system at a cost of $660 million, but it had not used the related software and capabilities to improve its response times to power outages. At the time of our audit, smart meters were being used mainly for billing, and not to remotely identify the location of power outages before a customer called to report the outage. Such information from smart meters would have made dispatching of work crews timelier and more efficient, leading to improved customer service and cost savings.

We recommended that Hydro One should set multi-year targets and timetables for its transmission system to reduce the frequency and duration of power outages and thus improve transmission system reliability and availability; eliminate its growing preventive maintenance backlog; target assets for replacement that have the highest risk of failure, especially those rated as being in very poor condition and that have exceeded their planned useful service life; and provide accurate information to the OEB on its asset replacement activities.

For its distribution system, we recommended that Hydro One establish more ambitious goals, targets and benchmarks for system reliability performance; and lower its costs and improve reliability by shortening its vegetation-management cycle.

Our 2015 audit contained 17 recommendations, consisting of 36 actions, to address our audit findings.

Standing Committee on Public Accounts

In March 2016, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2015 Hydro One—Management of Electricity Transmission and Distribution Assets audit. In December 2016, the Committee tabled a report in the Legislature resulting from this hearing. The Committee endorsed our findings and recommendations. The Committee made 10 additional recommendations and asked Hydro One to report back by April 2017. The Committee's recommendations and our follow-up on them are found in Chapter 3.

Important Events Following Our 2015 Audit

Sales of Hydro One Shares

The government passed the *Building Ontario Up Act* (Act) in June 2015 to permit the sale of up to 60% of the Province's common shares in Hydro One (the Province was the sole shareholder), with no other single shareholder allowed to hold more than 10% of the total equity. The Province then released an initial public offering of about 15% of the common shares in November 2015.

In May 2017, the Province sold another 120 million Hydro One shares. As a result, Ontario now holds just 49.9% of Hydro One's shares. In addition, as announced in July 2016, the Province agreed to sell up to 2.5% of its Hydro One shares to First Nations, depending on the level of First Nation participation. Assuming full participation, this would bring the Province's ownership to 47.4% of Hydro One.

By law, the government of Ontario is required to remain the largest shareholder, keeping at least 40% of Hydro One's shares. No other shareholder, or group of shareholders, is permitted to own more than 10% of Hydro One.

Hydro One No Longer Subject to Scrutiny of Our Office

Effective December 4, 2015, the Act also removed the authority of our Office to conduct and report on value-for-money audits and follow-ups on Hydro One. As a result, our audit of Hydro One's management of electricity transmission and distribution assets, which commenced prior to the tabling of the Act, was our Office's last value-for-money audit of Hydro One.

Since Hydro One ceased to be an agency of the Crown following passage of the Act, it was not required to participate in this follow-up. As an act of good faith and courtesy, Hydro One nevertheless sent us a document on April 26, 2017, presenting actions it had taken to respond to our recommendations (following our formal request in late January 2017 for it to report back to us). However, as explained in more detail in the following section, it declined to provide us with any more details beside this document.

Given that our Office ceased having jurisdiction over Hydro One as of December 4, 2015, we requested that the Ontario Energy Board take the observations we made in our audit into consideration during its regulatory processes.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and July 26, 2017. To meet new Canadian auditing standards, we requested Hydro One's CEO and/or Vice President to sign a management representation letter, dated September 1, 2017, at the completion of our work. The purpose of the letter was to obtain written representation from Hydro One that it had provided us with a complete

update of the status of the recommendations made in the original audit two years ago. On August 29, 2017, Hydro One responded that it declined to sign this letter or any similar document. Hydro One indicated that since it ceased to be an agency of the Crown following passage of the *Building Ontario Up Act, 2015*, it was not required to participate in this follow-up, and it was not appropriate for it to sign the letter.

Hydro One's update was sent to us on April 26, 2017. Normally, after receiving such an update, we have questions that need to be answered, and we request supporting documents so we can verify the information our auditee has provided. We presented our first round of questions and our request for supporting documents in early May 2017. Hydro One responded that the information it had already provided was given in good faith and as a courtesy, since it was not required to participate in our follow-up. It declined to participate any further in our follow-up process.

Since we no longer have the authority to follow up with Hydro One, we have classified all of our recommendations as no longer applicable. And since we did not have the support to verify or confirm the information Hydro One provided in April, we were unable for most recommendations to assign any other status but "no longer applicable"—with the following exceptions:

- When Hydro One clearly stated that it will not implement a recommended action, we assigned the status "Will not be implemented."
- When we were able to obtain supporting documents ourselves to verify the information that Hydro One provided (since they were included in Hydro One's applications to the Ontario Energy Board (OEB) for rate increases, which we obtained from the OEB), we assigned either the status "Fully implemented" or "In the process of being implemented by [a specific date]."

We also determined whether the OEB had taken the observations we made in our 2015 audit into consideration in its regulation of Hydro One's transmission and distribution rates. At the time of our follow-up, Hydro One's transmission and distribution rate applications were under review by the OEB. We noted that the OEB conducted oral hearings to examine the evidence provided by Hydro One for its rate applications and submitted over 100 questions to Hydro One in order to clarify how Hydro One had addressed the specific areas of concern cited in our 2015 report in its rate applications.

Transmission System

Recommendation 1

To ensure the reliable operation of the transmission system and to reduce the number of power outages experienced by customers, Hydro One should:

- *set multi-year targets and timetables for reducing the frequency and duration of power outages that would lead to it having a system reliability and availability that compares favourably to other utilities in North America, establish an action plan and strategy for achieving these targets, and regularly report publicly on its efforts to achieve these targets;*

  Status: No longer applicable.

Details

In our 2015 audit, we found that Hydro One's transmission system had become less reliable, with longer and more frequent outages. While Hydro One's system reliability and availability were generally better than that of other Canadian electricity transmitters, reliability and availability had deteriorated over time and were worse than that of U.S. transmitters.

The document Hydro One sent us in April 2017 as a courtesy did indicate that it had done the following to improve its transmission system reliability and reduce outages:

- developed multi-year transmission reliability targets;

- implemented Transmission Strategies, which include combining planned maintenance activities into a single work-stream, to reduce planned outages and reduce the risk of delivery point interruptions to customers;
- made organizational changes that have established a Planning Analytics team to work closely with asset planners to improve performance analysis on its transmission system and to integrate this analysis into the investment planning process; and
- reviewed the outstanding defects and deficiency reports across all asset groups, which include transmission stations and lines, to ensure that all critical defects have been addressed and to mitigate the impact of equipment failures.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *set targets and timetables, and cost-effective action plans, to improve the poor performance of its single-circuit transmission system;*
  Status: No longer applicable.

Details

Hydro One measures its transmission system reliability for areas serviced by a single-circuit system (where a customer has only one line delivering electricity) separately from areas serviced by a multi-circuit system (where a customer has multiple towers and lines delivering electricity). Our 2015 audit found that 47% of transmission outages from 2010 to 2014 occurred in Northern Ontario, where 86% of the delivery points were supplied by a single circuit.

The document Hydro One sent us in April 2017 as a courtesy did indicate that it had done and was doing the following to improve its transmission delivery point performance:

- developed multi-year transmission reliability targets;
- annually conducting an analysis of transmission delivery point performance to determine remedial options for affected customers and to provide data that can be integrated into its future business plans to improve system reliability;
- annually conducting an analysis of five-year and 10-year transmission reliability performance to further investigate system reliability issues and to identify remedial options for affected customers in accordance with the Customer Delivery Point Performance Standards;
- annually reviewing customer delivery point performance; and
- annually communicating its plans for improvement activities to affected customers.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *more thoroughly analyze outage data on both its single- and multi-circuit systems to correct the main issues that are contributing to the system's declining reliability.*
  Status: No longer applicable.

Details

Our 2015 audit found that the difference in transmission reliability for areas serviced by a single-circuit system and those serviced by a multi-circuit system was significant. Outages mainly occurred in Northern Ontario, where the majority of the delivery points are supplied by a single circuit. But Hydro One's reliability also deteriorated significantly in multi-circuit areas, with longer and more frequent outages.

The document Hydro One sent us in April 2017 as a courtesy did indicate that it had done and was doing the following to improve its transmission delivery point performance:

- annually conducting an analysis of transmission delivery point performance to determine

remedial options for affected customers and to provide data that can be integrated into its future business plans to improve system reliability;

- annually conducting an analysis of five-year and 10-year transmission reliability performance to further investigate system reliability issues and to identify remedial options for affected customers in accordance with the Customer Delivery Point Performance Standards;
- completed a high-level analysis comparing five-year historic transmission reliability performance to maintenance program spending to identify opportunities for shifting program funding to those asset classes contributing to long outages; and
- supplemented its analyses with a model to quantify reliability risk in order to improve its ability to measure the effect of investment on transmission reliability.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 2

To ensure that Hydro One has an effective preventive maintenance program for all its critical transmission system assets to ensure they operate reliably and their expected service life is not shortened, Hydro One should:

- *establish a timetable that eliminates its growing preventive maintenance backlog as soon as possible;*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One had a growing backlog of preventive maintenance on transmission system equipment, and this lack of maintenance led to equipment failures. From 2012 to 2014, the backlog of preventive maintenance increased by 47%, and the total number of equipment failures increased by 7%.

The document Hydro One sent us in April 2017 as a courtesy did indicate that the backlog we reported in our 2015 audit was partially due to one-time testing to ascertain the level of polychlorinated biphenyls (PCBs) in oil-filled equipment older than 1985. The testing is not expected to be completed until 2021. The test results will help Hydro One determine whether the equipment needs to be replaced to comply with federal regulations to phase out PCBs.

Our research found that PCBs are chemicals once used mainly for electrical equipment. Canada prohibited the manufacture, process, import and sale of PCBs in the 1970s because of their toxicity. To further reduce the release of PCBs into the environment, the federal government amended the PCB regulations in 2015 by setting an end-of-use deadline of December 31, 2025, for specific equipment located at electrical generation, transmission and distribution facilities.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying Hydro One's information about the one-time testing and its role in the maintenance backlog.

- *improve its oversight of preventive maintenance programs to ensure maintenance is completed as required and on time.*
  Status: No longer applicable.

Details

Our 2015 audit noted that the preventive maintenance backlog existed because Hydro One did not have sufficient staff available to perform all scheduled maintenance. The situation had worsened since 2012, as maintenance staff had been assigned to complete capital projects to repair or refurbish Hydro One's aging transmission system.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had developed accountabilities and processes for

maintenance order generation, prioritization, redirection, scheduling, cancellation and deferral. This includes a control whereby no critical preventive maintenance orders can be deferred without approval from Asset Management.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 3

To reduce the risk of equipment failures that can cause major power outages on the transmission system, Hydro One should:

- *ensure that its asset replacement program targets assets that have the highest risk of failure, especially those rated as being in very poor condition;*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One did not replace assets in very poor condition and at very high risk of failing. During 2013 and 2014, Hydro One replaced only four of the 18 power transformers it deemed to be in very poor condition. Two of these transformers failed and resulted in outages. Hydro One planned to replace in 2015 and 2016 only eight of the 34 power transformers that were rated at very high risk for failure.

The document Hydro One sent us in April 2017 as a courtesy did indicate that it has implemented investment planning processes and trained planning engineers to develop asset renewal plans based on multiple risk factors. The document also stated that to support its choice of which transformers to replace in 2017 and 2018, Hydro One conducted assessments and prepared engineering reports based on an Asset Risk Assessment (ARA) process outlined in its 2017/18 rate application to the OEB.

Since Hydro One did not provide further details on the ARA process, we reviewed Hydro One's 2017/18 rate application to find out more. We noted that the ARA process takes into account each asset's condition, demographics, performance, criticality, economics and utilization based on data analyses and engineering studies. Hydro One collects this data during routine maintenance, inspections and testing done for planning purposes. In assessing asset needs, asset planners also consider other factors such as obsolescence, environmental risks and requirements, compliance obligations, equipment defects, health and safety considerations, and customer needs and preferences. Asset planners then make recommendations regarding what investments should be made. The ARA process is only one step in the asset planning process and does not replace decisions made by engineers who physically inspect the assets.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying whether and how well Hydro One actually implemented the ARA process.

- *reassess its practice of replacing assets that are rated as being in good condition before replacing assets in very poor condition;*
  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

In our 2015 audit, we found that Hydro One's transmission assets in very poor condition were not replaced while others in reportedly better condition were. We questioned how Hydro One asset management staff prioritized transmission assets for replacement when assets known to be in very poor condition were not replaced. We also found that Hydro One's asset investment planning system—Asset Analytics—did not record and consider key factors that affected asset investment decisions, including those related to technological/manufacturer obsolescence, known defects, environmental impact and health and safety.

Hydro One informed us that it had considered our recommendation but decided not to implement it.

Hydro One indicated that the findings in our 2015 audit regarding asset replacement were based solely on asset condition information without considering other factors that Hydro One uses in making asset replacement decisions. For example, Hydro One may decide to replace assets in good condition based on other factors such as environmental impact, health and safety issues, and customer needs and preferences, while assets that have deteriorated but have no significant impact on the system may not need immediate replacement.

- *replace assets that have exceeded their planned useful service life.*
  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

Our 2015 audit found that Hydro One did not have an effective program for replacing transmission assets beyond their planned useful service life. This increases the risk of power failures.

Hydro One informed us that it had considered our recommendation but decided not to implement it.

Hydro One explained to us that an asset's expected or planned useful service life is the average time in years that an asset can be expected to operate under normal conditions. But Hydro One does not believe that an asset older than that expected age necessarily needs immediate replacement. Hydro One acknowledged that it has such older assets; however, its asset management objective is to maintain asset performance while minimizing costs, to the benefit of ratepayers. It therefore does not replace assets that, while old, are in good working condition. The aim is to maximize the life expectancy of an asset and optimize work efficiency.

Recommendation 4

Hydro One should ensure that its applications for rate increases to the Ontario Energy Board provide accurate information on its asset replacement activities, including whether it actually replaced assets in poor condition that were cited in previous applications and whether the same assets in poor condition are being resubmitted to obtain further or duplicate rate increases in current applications.

Status: No longer applicable.

Details

In our 2015 audit, we found that Hydro One did not follow through on the information it provided the Ontario Energy Board (OEB). For example, Hydro One's 2015/16 rate application indicated it would replace 43 transformers. They included 13 that had been rated in very poor condition in Hydro One's 2013/14 rate application and had been funded for replacement then but were not replaced. For the second year in a row, the OEB approved rate increases to fund replacing these transformers.

The document Hydro One sent us in April 2017 as a courtesy did indicate that it had done the following to ensure that its rate increase applications give an accurate picture of asset replacement:

- engaged a third-party expert, Electric Power Research Institute, to review its transformer fleet health (condition) assessment, which supported Hydro One's assessment methodology and verified that Hydro One's rate applications have accurately reflected its asset replacement activities;
- aligned its asset replacement rates and pacing of investments with customer needs and preferences, which have been reflected in its rate applications; and
- outlined in its rate applications its replacement strategies for transformers and breakers, its selection process and its execution methodology, thus providing the OEB with the rationale behind its asset replacement activities.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 5

To ensure Hydro One is replacing assets that are at the highest risk of failure as determined through accurate asset condition ratings, Hydro One should:

- *enhance its Asset Analytics system to include information on all key factors that affect asset investment decisions, including those related to technological/manufacturer obsolescence, known defects, environmental impact and health and safety;*

  Status: In the process of being implemented by the fourth quarter of 2020.

Details

Our 2015 audit found that Hydro One's asset investment planning system—Asset Analytics—did not record and consider a number of key factors, including technological or manufacturer obsolescence information, known defects in the assets, environmental impact, and health and safety concerns. As a result, assets that needed replacing were not always being identified.

Hydro One informed us that the Asset Analytics system is one tool used to help it make asset investment decisions, but its results are not the only factor considered in making these decisions. The purpose of the system is to provide asset planners with convenient access to asset data to assess emerging risk factors in an efficient manner. Asset planners then make asset replacement decisions based on not only data from the system but also other factors—demographics, criticality, economics, obsolescence, environmental risks and requirements, compliance obligations, equipment defects, health and safety considerations, and customer needs and preferences.

Since Hydro One would not provide further details on the Asset Analytics system, we obtained its 2017/18 application to the OEB for rate increases, in which Hydro One indicated that the system requires remediation because the existing risk factors have remained unchanged since the initial deployment of the system (asset planners use risk factors to support maintenance programs and plan future investments). Hydro One was planning to implement a project to update the system's risk factors. The project will refine the existing risk factors to improve the quality of asset-planning data and decisions. Key elements of the project will include:

- adding two new risk factors, including an obsolescence risk factor and a health, safety and environmental-impact risk factor;
- modifying the existing risk factors by adding new supporting factors and adjusting the weighting of such factors to improve the prioritization of assets for work and replacement; and
- training end-users on the changes to the system.

The planned completion of the project is by the fourth quarter of 2020.

- *review and adjust current weighting assigned to risk factors in Asset Analytics to more accurately reflect their impact of asset condition and risk of failure;*

  Status: In the process of being implemented by the fourth quarter of 2020.

Details

Our 2015 audit noted that the Asset Analytics system applies six factors to evaluate asset condition: the age of the asset; the asset's condition; the amount spent on repairs to the asset; how much the asset is used relative to its capacity; its performance reliability (assessed using unplanned outages data); and its importance (based on the number of customers it serves). The system weighs all six factors for each asset type to generate a risk score for making asset replacement decisions. However, our audit found that the system did not properly weigh the risk posed by certain conditions that may shorten asset life.

As previously noted, Hydro One's 2017/18 application to the OEB for rate increases outlined a project to update Asset Analytics risk factors.

The project will refine the existing risk factors to improve the quality of asset-planning data and decisions. The planned completion of the project is by the fourth quarter of 2020.

- *make changes to its Asset Analytics system and procedures so that updates to its data are complete, timely and accurate;*
  Status: No longer applicable.

Details

Our 2015 audit found that the Asset Analytics system did not provide complete and accurate information. Key information was often not included, or incorrectly weighted, in the system.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had initiated a data remediation project to address data quality, collection and functionality issues relating to the Asset Analytics system. Hydro One told us it had completed the following data and functionality improvements to the system in 2015 and 2016:

- Data from transmission stations had increased from 35% to 85%, and data from transmission lines had increased from 50% to 70%.
- Data from distribution stations had increased from 35% to 60%; work was ongoing to increase data from distribution lines data from 69% to 85% by the end of 2017.
- Work to improve distribution data, such as the number of poles and pole-top transformers, and to develop a dashboard for distribution lines, was ongoing, with a targeted completion date of the end of 2017.
- Dashboards to show population levels, missing data reports and the effectiveness of new assets were established for all transmission and distribution asset classes.
- About 30% to 40% of asset characteristics being collected in the Asset Analytics system that were not required were deleted.
- More than 250 data templates in the Asset Analytics system were revised to improve the quality of data entry and provide clear direction to staff.

In addition, Hydro One told us it had updated its Transmission Lines Geographical Information System (TLGIS), which stores images, photographs and videos of transmission line assets. Asset planners can now use the Asset Analytics tool to view the transmission network in the TLGIS environment. The details stored in the TLGIS will be updated each year and as assets change.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *conduct a comprehensive review of the data quality in Asset Analytics to update any incomplete or erroneous information on its assets and to ensure the information can support its asset replacement decision-making process;*
  Status: No longer applicable.

Details

Our 2015 audit found that the Asset Analytics system did not provide complete and accurate information to support Hydro One's asset replacement decision-making process. As a result, not all of the assets that needed replacing were being identified. For example, oil leaks are one of the leading reasons for replacing a transformer; however, the presence of oil leaks has very little impact on Asset Analytic's scoring of the risk of the asset failing and the need to replace it.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had initiated a data remediation project to address data quality, collection and functionality issues relating to the Asset Analytics system. The document stated that Hydro One had completed data and functionality improvements in 2015 and 2016.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *investigate why known deficiencies in the reliability of the Asset Analytics system, such as those found two years earlier by internal audits, have not been corrected by management in a timely manner.*

  Status: No longer applicable.

Details

In our 2015 audit, we noted that in 2013, Hydro One's internal auditors found that 21% of defective equipment notifications recorded by maintenance staff did not accurately identify the transmission asset that was defective. As a result, the defective asset was not entered into Hydro One's database. Our testing found that this problem still existed in 2015.

The document Hydro One sent us in April 2017 as a courtesy did not have any information on this finding and recommendation.

Hydro One also would not provide us with any more information, so this follow-up has no information to report on this recommendation.

Recommendation 6

Hydro One should ensure that its applications to the Ontario Energy Board for rate increases include accurate assessments of the condition of its assets.

Status: No longer applicable.

Details

Our 2015 audit noted that Hydro One included inaccurate condition ratings for some of its assets in its applications to the OEB for rate increases. Specifically, some of the assets that Hydro One replaced or planned to replace from 2013 to 2016 were inaccurately rated as being in good or very good condition. The main reason for these inaccuracies was the unreliable data in Hydro One's information systems.

The document Hydro One sent us in April 2017 as a courtesy did state that Hydro One has endeavoured to ensure the data submitted to the OEB for rate setting accurately reflects asset conditions. Hydro One said that our 2015 report focused on the information about investments that appeared in successive applications to the OEB and that, in practice, investments might be delayed because of work delays and changing circumstances leading to changes in priority. Hydro One said that it used the best information available at the time concerning its capital spending plans to file its 2017/18 application. Hydro One also indicated that it is prepared to explain variations from its previous plans and/or OEB-approved spending amounts, compared to actual work completed.

The document also stated that Hydro One had initiated a data remediation project to address data quality, collection and functionality issues relating to the Asset Analytics system, ensuring that its rate applications to the OEB have accurate information on the condition of its assets.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 7

To ensure that its maintenance expenditures on the transmission system are cost-effective, and activities produce more timely improvements to the reliability of the transmission system, Hydro One should conduct:

- *an assessment of its past maintenance expenditures and activities to determine what changes and improvements can be made to more effectively focus its efforts on the critical factors that improve system reliability and how its planned maintenance and capital improvements work can be completed with less risk of service disruption;*

  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One's overall increased spending to maintain and operate the transmission system from 2010 to 2014 did not result in improved system reliability. The average frequency of outages of Hydro One's multi-circuit transmission system increased 24% over this period, primarily due to an increase in the number of

unplanned outages, such as those caused by equipment failure or weather.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One has conducted a high-level analysis of transmission reliability relative to spending on maintenance to identify opportunities for shifting program funding to those asset classes that have contributed to significant outage duration, in addition to:

- annually conducting an analysis of transmission delivery point performance to determine remedial options for affected customers and to provide data that can be integrated into its future business plans to improve system reliability;
- annually conducting an analysis of five-year and 10-year transmission reliability performance to further investigate system reliability issues and to identify remedial options for affected customers in accordance with the Customer Delivery Point Performance Standards; and
- supplementing its analyses with a model to quantify reliability risk in order to improve its ability to measure the effect of investment on transmission reliability.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *benchmark cost assessments with other similar North American transmitters to compare its results with those that have reasonable expenditures and that maintain reliability;*
  Status: Fully implemented.

Details

In our 2015 audit, Hydro One acknowledged that its transmission cost measures could be benchmarked against those of other utilities, but it had not attempted to do so since the Canadian Electricity Association stopped annually comparing costs of all major Canadian transmitters in 2009.

The document Hydro One sent us in April 2017 as a courtesy indicated that Hydro One had engaged a third party to conduct a cost and reliability performance benchmarking study—the "Total Cost Benchmarking Study"—which Hydro One submitted as part of its 2017/18 application for rate increases to the OEB.

We reviewed the study as it appeared in the rate application. The study was completed in May 2016 and included a set of benchmarks comparing Hydro One's total transmission cost and performance against peer utilities in Canada and the United States. The study focused on five key areas: cost, reliability, project management, safety and staffing. In most areas, Hydro One's transmission business benchmarked well relative to the peer group. The study reported the following:

- Hydro One's total spending on transmission lines and stations was among the lowest in the peer group.
- Hydro One's sustained outage frequency for the lower voltage lines was the highest in the peer group. Momentary outage frequency was also among the highest in the peer group.
- Hydro One put significant project management resources in place to manage its large annual capital investment plan. The number of project managers on staff exceeded the peer group average. Its project estimates were relatively accurate.
- Hydro One's lost time severity rate (the time lost as a result of work-related injuries or illnesses) was low compared to the peer group. Its vehicular incident rate (the frequency rate of both preventable and non-preventable motor vehicle accidents) was also lower than the peer group average.
- Hydro One's wage rates were close to the peer group average. Hydro One's hourly cost of overtime was higher than the peer group average, but overtime usage was consistent with the group average.

- *a study of other leading cost-effective transmitters and consider implementing their best practices to quickly improve Hydro One's reliability and improve its costs.*

Status: Fully implemented.

Details

In our 2015 audit, we noted that the OEB recognized the need for Hydro One to compare its costs with those of Hydro One's costs with other similar transmitters. As part of the OEB's January 2015 decision to award Hydro One a transmission system rate increase for 2015/16, Hydro One agreed to complete an independent transmission cost benchmarking comparison study, and to provide it to the OEB in spring 2016 as part of its next rate application for 2017/18.

As previously mentioned, Hydro One did have a third party conduct this study and we had access to it as it appeared in Hydro One's 2017/18 application to the OEB. In addition to the key findings listed in the previous section, the study identified industry best practices and made the following recommendations to Hydro One based on these best practices:

- Reassess and adjust performance indicators across all levels of the organization.
- Target a corrective maintenance spending that is about 25% of total corrective and preventative spending.
- Assess opportunities to reduce administrative costs.
- Continue building on the use of external resources for engineering to create a pipeline of construction-ready projects.
- Manage contingency budgets at the corporate level.
- Allocate project management resources to improve effectiveness.
- Formalize a rolling two-year capital budget and project portfolio and reporting framework.
- Refresh the formal driver training program.

Recommendation 8

To ensure a robust and high level of security for the transmission system to mitigate the risk of service disruptions due to sabotage, vandalism, software viruses, and unauthorized or unintentional changes to device software or controls, Hydro One should develop a comprehensive security framework to cover all its electronic devices. The framework should include best practices for security over electronic devices, including establishing standards similar to those set by the North American Electricity Reliability Corporation, performing security vulnerability risk assessments on all electronic devices, establishing appropriate actions and controls to mitigate security risks to an acceptable level, and conducting regular audits to validate that the security framework has been adhered to.

Status: No longer applicable.

Details

Our 2015 audit found that Hydro One had weak security for most of the electronic devices on its transmission system. The North American Electricity Reliability Corporation (NERC) has security standards for North American transmitters' electronic devices that are critical for the whole continent's electricity system and that could have an impact on other jurisdictions. Only 18% of Hydro One's transmission stations fall under the NERC security standards, and only 17% of Hydro One's electronic devices fall under NERC's definition of critical devices. Hydro One's security policies are less rigorous for those of its electronic devices not required to comply with NERC standards. There was also no requirement for Hydro One's security policies to be tested periodically to ensure compliance.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had developed a comprehensive security framework called the Security Code of Practice, which includes Hydro One's Security Policy and Security Operating Standards and had been implemented in compliance with version 5 of NERC's Critical Infrastructure Protection Standards.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Distribution System

Recommendation 9

In order to improve the reliability ratings for its distribution system, Hydro One should:

- *establish more ambitious performance goals, targets and benchmarks for system performance;*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One's distribution system was one of the least reliable among large Canadian electricity distributors between 2010 and 2014, with no improvement over this time period. The total number of distribution-side power outages increased by 11%, primarily due to equipment failures.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One was planning to have set multi-year distribution reliability targets by the end of April 2017.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *develop short- and long-term strategies for new and enhanced activities and cost-effective investments that will improve its overall reliability record.*
  Status: Fully implemented.

Details

Our 2015 audit found that Hydro One was among the worst-performing large Canadian electricity distributors from 2010 to 2014. In a scorecard published by the OEB in 2014, Hydro One was ranked the worst distributor in Ontario for the duration of its outages in 2013 and the second-worst distributors in Ontario for the frequency of its outages in 2013.

The document Hydro One sent us in April 2017 indicated that Hydro One had done the following to improve its distribution reliability record:

- implemented distribution strategies, which include expanding renewal programs for distribution lines and stations, improving control-room visibility and the controllability of devices, and focusing vegetation-management programs on large commercial/industrial customers;
- updated its distribution investment prioritization matrix, including giving greater weight to reliability and increasing priority categories to give field crews more direction in their work and to cut lower-priority work if funding constraints are encountered;
- required monthly monitoring and reporting of distribution work accomplishments "on a more granular level (including program completions)" (in the absence of clarification from Hydro One, we interpret this to mean requiring more detailed reporting);
- required annual monitoring of the scope of work in station refurbishments; and
- developed a Distribution System Plan (DSP) for 2018–2022 that incorporates strategic updates based on feedback from consultations with customers, along with adjusted investments in programs to improve the reliability of specific underperforming distribution assets.

We were able to review this DSP because it was included in Hydro One's most recent rate application to the OEB, which we obtained. Our review noted that the DSP has reflected customer needs and preferences, and that Hydro One had taken or was planning to take actions to address customer feedback. For example:

- Residential and small-business customers requested that Hydro One maintain its existing level of reliability. In response, Hydro One assessed the condition of its key assets and developed an investment plan to sustain

reliability performance through system renewal projects and programs such as the Pole Replacement Program, Distribution Station Refurbishment Projects and Line Renewal Projects.

- Large industrial customers ranked improved power quality as their top priority. In response, Hydro One created a program that will install power quality meters and surge arresters to help customers figure out the source of any power quality issue. Hydro One also increased funding for reliability enhancement projects targeted to mid-size industrial customers.

Recommendation 10

To lower costs and ensure Hydro One's vegetation-management program is effectively reducing the number of tree-related outages experienced by its distribution system customers, Hydro One should:

- *shorten its current 9.5-year vegetation-management cycle to a more cost-effective cycle of less than four years, in line with other similar local distribution companies;*
  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

Our 2015 audit found that Hydro One experienced more outages caused by fallen trees or tree limbs because Hydro One did not trim back trees as often as other utilities did. Hydro One was operating on a 9.5-year vegetation-management cycle—over double the length of the cycles in use by similar local distribution companies. Hydro One's vegetation-management costs in 2014 were $84 million higher than they would have been under a four-year cycle.

Hydro One informed us that it had considered our recommendation but decided not to implement it.

Hydro One also told us that it introduced a new On-Cycle Maintenance Program in 2016 and adjusted the 9.5-year vegetation-management cycle to an eight-year cycle. Hydro One believes that any shorter of a cycle (such as a four-year cycle as we recommended) is not economically feasible.

- *change the way it prioritizes lines that need clearing so that lines with more frequent tree-related outages are given higher priority and work crews are dispatched sooner.*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One's system for designating distribution lines for vegetation management did not prioritize areas where trees caused outages. Instead, as the examples we found attested, Hydro One did vegetation management for distribution lines that had few tree-caused outages. The result of poor prioritizing was a 5% increase in tree-caused outages between 2010 and 2014.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had reviewed the vegetation-management program and would review it annually going forward. It also stated that Hydro One had improved its prioritization model by giving greater weight to reliability, thus making reliability a major driver of prioritization. It further stated that Hydro One had improved its deployment of work crews and implemented flexible locational work to focus on areas with more tree-related outages.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 11

To ensure that management decisions on replacing distribution system assets are made using reliable and complete information, Hydro One should take the actions needed to ensure its Asset Analytics system provides timely, reliable, accurate and complete information on the condition of assets.

Status: No longer applicable.

Details

Our 2015 audit found that Hydro One's Asset Analytics system, a key tool for making replacement decisions, had incomplete and unreliable data on distribution assets. For example, there was limited data available to evaluate all 152 distribution-station breakers; and 14 distribution-station power transformers that were under 10 years old were mistakenly assigned age scores of 100, well past the 40-year expected service life of such transformers.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had initiated a data remediation project to address data quality, collection and functionality issues relating to the Asset Analytics system. It also said that Hydro One had completed improvements for the system's data and functionality in 2015 and 2016.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 12

To reduce the risk of equipment failures that can cause power outages on the distribution system, Hydro One should:

- *replace assets that have exceeded their planned useful service life;*
  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

Our 2015 audit found that Hydro One did not replace distribution system assets that had exceeded their planned useful service life, increasing the risk of power failures. For example, of Hydro One's 1.6 million wood poles, 202,000 (or 13%) had exceeded their 62-year expected service life and only about 12,000 poles were replaced each year. From 2010 to 2014, there were 47 outages caused by fallen wood poles.

Hydro One informed us that it had considered our recommendation but decided not to implement it.

Hydro One explained to us that an asset's expected or planned useful service life is the average time in years that an asset can be expected to operate under normal conditions. But Hydro One does not believe that an asset older than that expected age necessarily needs immediate replacement. Hydro One acknowledged that it has such older assets; however, its asset management objective is to maintain asset performance while minimizing costs, to the benefit of ratepayers. It therefore does not replace assets that, while old, are in good working condition. The aim is to maximize the life expectancy of an asset and optimize work efficiency.

- *reassess its planned expected service life for assets and justify any variances in the years used by Hydro One compared to other similar local distribution companies.*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One set the planned useful life for its distribution system assets longer than other comparable local distribution companies (LDCs). For wood poles, Hydro One expected a 62-year service life, while other LDCs expected a service life of only 44 years. For station transformers, Hydro One's expected service life was 50 years, whereas that of other LDCs was 45 years.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had reviewed the expected or planned service life values for key asset classes, which it found were valid and in line with other utilities.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Recommendation 13

To ensure that its capital sustainment and maintenance expenditures on the distribution system are cost effective and produce more immediate improvements to the reliability of the distribution system, Hydro One should:

- *conduct an assessment of its past maintenance expenditures and activities to determine how to focus efforts on more critical factors that affect the system;*

  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One's increased spending on capital sustainment and on operations, maintenance and administration (OM&A) for its distribution system did not result in improved system reliability. While Hydro One's 18% overall increase in spending in these two areas from 2010 to 2014 would have been expected to improve system reliability and result in fewer equipment failures, outages had actually increased by 11% over this period.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had assessed its past maintenance expenditures and activities, with a focus on critical factors and contributors to distribution reliability. It also said Hydro One had undertaken strategic updates to its distribution programs and projects based on customer feedback during the third quarter of 2016. Hydro One told us it included these updates in the Investment Summary Documents as part of its Distribution System Plan.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *benchmark cost assessments with other similar local distribution companies (LDCs) in Ontario and Canada, and consider implementing the best practices of the leading cost-effective LDCs.*

  Status: Fully implemented.

Details

Our 2015 audit noted that, according to a 2013 study, Hydro One's operations, maintenance and administration (OM&A) and capital sustainment costs were higher than other similar LDCs. The Canadian Electricity Association also found that Hydro One had higher costs than the average of its members from 2006 to 2010. As well, in 2014, the OEB gave Hydro One its lowest cost-efficiency ranking among distributors. Hydro One's actual costs were more than 25% higher than what the OEB expected.

The document Hydro One sent us in April 2017 as a courtesy indicated that Hydro One had participated in benchmarking studies to support its approaches to the investment, maintenance and sustainment activities included in its 2017/18 distribution rate application. These studies included vegetation management, the pole replacement program, and the station refurbishment program. The document also indicated that in 2016, Hydro One arranged for an independent third-party review of its Distribution System Plan (DSP), providing unit-cost validation for its forestry, pole replacement and station refurbishment programs.

We obtained Hydro One's 2017/18 rate application from the OEB. This enabled us to verify that Hydro One had engaged third parties to conduct benchmarking studies to assess its distribution system performance and examine best practices. The key findings from each major study were as follows:

- The Pole Replacement Program Study found that Hydro One's costs are in line with the average of the comparison group, with low unit costs for inspections and average costs for replacement of poles; Hydro One inspects its poles more frequently than most utilities, but Hydro One replaces its poles less frequently than do the comparison utilities.
- The Distribution Station Refurbishment Program Study noted that utilities' refurbishment activities vary widely, limiting the ability to make comparisons; it nevertheless could observe that Hydro One's costs for individual station refurbishments are within the range observed across the comparison utilities.

- The Vegetation Management Program Study found that Hydro One has high unit costs compared to the peer group due to heavy workloads associated with long cycle lengths and higher costs for labour and equipment, and that Hydro One is below the peer group average for tree-related outages per system kilometre.
- The Total Compensation Study showed that on an overall weighted basis, Hydro One's compensation amounts are 14% higher than the market median at industry comparator organizations.

Recommendation 14

To lower its repair costs and improve customer service relating to power outages through more accurate and timely dispatches of its repair crews, Hydro One should develop a plan and timetable for using its existing smart meter capability to pinpoint the location of customers with power outages.

Status: No longer applicable.

Details

Our 2015 audit found that Hydro One installed 1.2 million smart meters on its distribution system at a cost of $660 million, yet it did not implement the related software and capabilities to improve its response times to power outages. Hydro One used smart meters predominantly for billing purposes, but not for the purpose of remotely identifying the location of power outages in the distribution system before a customer calls to report the outage.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had approved a pilot project called the Advanced Metering Infrastructure for Operations and the Advanced Metering Infrastructure for Analytics. The project is to integrate smart meter outage data to the outage management system, enabling Hydro One to monitor asset loading information in order to avoid premature and possible unplanned asset failures due to overloaded equipment. In addition to being able to ping meters to determine whether customers have power at their premises and avoid re-dispatching crews for further repair work, the project is to deliver further value by consolidating multiple meters without power and showing the scope of a power outage to the control room operators. Hydro One indicated that it had confirmed the project's requirements and scope and selected vendors. Hydro One's document to us stated that the project was expected to be completed by the end of 2017.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Spare Transformers in Storage Not Aligned with Hydro One's Needs

Recommendation 15

To reduce its excess inventory of spare transmission and distribution system transformers to an appropriate cost-effective level, and to lower costs while still being able to replace failed transformers in a timely manner, Hydro One should:

- *improve the forecasting model it uses for predicting transformer failures, and maintain its inventory levels of spare transformers in accordance with the forecasts;*

  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One did not have a cost-effective strategy for ensuring it had an appropriate number of spare transformers on hand, resulting in an excessive number of spare transformers in storage. Hydro One used a model to help forecast the number of transformers it would need to keep in storage, but it did not apply the model to the vast majority of types of distribution system transformers and did not follow the model to determine the number of spares to stock.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had updated its forecasting model (called the Markov Model) to predict its need for spare transformers. The document stated that the model uses industry-proven strategic spares risk-analysis methodology to determine the appropriate quantity of operating spares. Hydro One also indicated that it had implemented Transmission and Distribution Spares Strategies to address key issues, including reducing existing inventory, reinforcing a "first-in-first-out" policy and establishing the shelf life of spare transformers to trigger mandatory deployment.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *develop a plan to standardize in-service transformers as much as possible, and set targets and timelines for achieving savings from better managing both spare and in-service transformers.*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One had already saved $50 million to $60 million since 2009 by standardizing transmission system transformers; however, no similar plans were in place for standardizing distribution system transformers. We estimated that another $25 million in savings over 10 years could be forgone if no changes were made to standardize distribution system transformers. We also estimated that this savings could be much higher, ranging from $50 million to $70 million, by not buying more spare transformers over the next 10 years.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had taken the following actions to standardize and manage its power transformers:

- reviewed its transmission power transformer fleet for further standardization and determined that its existing 14 procurement standards are sufficient, so adopting additional standards would have limited value;
- reviewed its distribution power transformer fleet, revised its procurement standards (reducing them from 60 to 45) and documented its calculation of savings and timelines for achieving such savings;
- reviewed and documented its power transformer inventory at the Central Maintenance Shop storage area to ensure that the required level of inventory is maintained (with plans to continue to do this annually); and
- reviewed and updated the asset data in its system to improve the tracking of available spares and their deployment status (with plans to continue to do this annually).

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Data from Power Quality Meters Not Used to Help Customers Avoid Disruptions

Recommendation 16

To minimize the number and impact of power quality events for its large customers, Hydro One should proactively use the data collected by its power meters to help assess the frequency and location of power quality events on its transmission and distribution systems and thereby improve the reliability of the power supply.

Status: No longer applicable.

Details

Our 2015 audit found that Hydro One did not proactively correct power quality issues, such as fluctuations in voltage levels, on its transmission and distribution systems. Hydro One had installed 138 power quality meters since 2010; however, it did not monitor and analyze the data from these meters to improve system reliability for its customers. Instead, Hydro One addressed the issues only if customers complained.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had completed system studies to estimate the magnitude, frequency and duration of sags in voltage levels. The document stated that the information provided by the studies will enable Hydro One to identify and undertake initiatives to minimize the impacts of power quality events on customers. Hydro One also indicated that it had been working with its customers to enable their power meters to serve as power quality meters, which will allow Hydro One to assess power quality events and their impacts on customers. As well, Hydro One said it had engaged third-party experts to assess customers' premises and recommend measures to increase customers' resilience to minor or moderate power quality events.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Weak Management Oversight Processes over Capital Project Costs

Recommendation 17

To ensure that management can better manage and monitor capital projects that use its own workforce, as well as lower project costs, Hydro One should:

- *use industry benchmarks to assess the reasonableness of capital construction project costs, and whether using internal services and work crews is more economical than contracting out capital projects;*
  Status: No longer applicable.

Details

Our 2015 audit found that Hydro One did not assess whether its spending on capital construction projects was reasonable or competitive with industry standards. While Hydro One spent over $1 billion annually from 2012 to 2014 on capital projects to sustain its transmission and distribution systems, it had weak oversight processes to minimize project costs, and it did not regularly analyze or benchmark its internal costs to industry standards.

We were able to obtain details on Hydro One's Total Cost Benchmarking Study (see the second action of Recommendation 7) by reviewing Hydro One's 2017/18 rate application to the OEB. This study noted that Hydro One's overall direct capital expenditures between 2010 and 2014 were generally below those of its peer group.

The document Hydro One sent us in April 2017 as a courtesy indicated that Hydro One had refined its internal work breakdown structure to enable a more efficient, consistent and accurate process for capturing actual project costs and comparisons. In addition, Hydro One indicated that it had been working with peer Canadian utilities to establish a consistent approach to benchmarking capital project work. The initial focus has been on transmission lines projects, with plans to move on later to substation projects.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information on Hydro One's use of industry benchmarks to assess the reasonable of capital construction project costs.

Furthermore, neither the Total Cost Benchmarking Study nor information provided in Hydro One's April 2017 courtesy document have any details on whether using internal services and work crews is more economical than contracting out capital projects.

- *use and adhere to contingency and escalation allowances that are more in line with industry norms for capital construction projects;*
  Status: No longer applicable.

Details

Our 2015 audit found that all Hydro One's capital project cost estimates included, on average, a 20% contingency allowance and an 8% escalation allowance over and above the original estimates. Such large allowances gave Hydro One staff little

incentive to complete a project at its original cost estimate or develop more accurate cost estimates for projects.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had reviewed and adjusted the contingency and escalation allowances, and that escalation allowances are in line and consistent with its business plan.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *improve its management reporting and oversight of project costs by regularly producing reports that show actual project costs and actual completion dates compared to original project cost estimates, cost allowances used, original approved costs, subsequent approvals for cost increases, and planned completion dates;*
  Status: No longer applicable.

Details

Our 2015 audit found that the reports received by Hydro One's senior management on the progress of capital projects did not include enough detail about costs and timelines to allow them to effectively assess how well a project was being managed. The project management reporting system was not designed to compare original cost estimates and completion dates with the final costs and dates.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had implemented a quantitative project risk management methodology and a formalized project closure reporting process, which includes all project stakeholders, to analyze the project plan and the effectiveness of its execution.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

- *regularly analyze its success in preparing project estimates by comparing them with final project costs.*
  Status: No longer applicable.

Details

In our 2015 audit, we found that several completed projects had cost overruns. We noted the following common causes for the overruns: the complexity and magnitude of the work was significantly underestimated at the planning stages; in-depth site visits either were not conducted or were insufficient for understanding the magnitude and complexity of the project; and unit costs used in the estimation process were not current.

The document Hydro One sent us in April 2017 as a courtesy did indicate that Hydro One had implemented a quantitative project risk management methodology and a formalized project closure report process, which includes all project stakeholders, to analyze the project plan and the effectiveness of its execution.

However, Hydro One would not provide us with any more details or supporting documents, which prevented us from verifying this information from Hydro One.

Chapter 1
Section
1.07

Treasury Board Secretariat

Infrastructure Planning

Follow-Up on VFM Section 3.07, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3		3		
Recommendation 2	1	1			
Recommendation 3	1		1		
Recommendation 4	1		1		
Recommendation 5	2	2			
Recommendation 6	1	1			
Total	**9**	**4**	**5**	**0**	**0**
%	**100**	**44**	**56**	**0**	**0**

Overall Conclusion

According to the information that the Treasury Board Secretariat (Secretariat) and the Ministry of Infrastructure (Ministry) provided to us, as of June 30, 2017, 44% of actions we recommended in our *2015 Annual Report* have been fully implemented, and 56% of the recommended actions are in the process of being implemented.

Overall, the Secretariat and Ministry have done the following:

- completed a number of recommendations on updating their guidelines and instructions to the ministries to submit more detailed information for their infrastructure plans;
- implemented a process to monitor project cost overruns and delays; and
- provided additional training to analysts to improve documentation to support their analyses and recommendations to the Treasury Board/Management Board of Cabinet.

However, some significant areas that still require work include:

- defining the desired condition at which to maintain infrastructure assets;
- striking a balance between funding new projects and funding repair/rehabilitation projects; and
- developing a cross-sector province-wide framework to prioritize infrastructure investments.

Background

Ontario's portfolio of public infrastructure includes highways, bridges, transit systems, schools, universities, hospitals, government buildings, and a wide variety of other assets. It has a replacement value of close to $550 billion.

The Ontario Government oversees about 40% of these assets, either directly or through broader-public-sector organizations, such as school boards and hospitals. The remaining assets are managed by other entities, including municipalities, universities, social service facilities and long-term-care facilities. Much of Ontario's current stock of infrastructure was built between the end of the Second World War and the 1970s. Infrastructure spending slowed between 1980 and 2005 but picked up again in the last 12 years. However, Ontario is managing an aging asset portfolio. The average age of hospitals in Ontario, for example, is 45 years, while the average of schools is 38 years.

Infrastructure spending includes preserving or expanding existing assets and building new ones. In the last 10 years, Ontario's largest infrastructure spending has been in the transportation sector, followed by health and education. For example, the Province spent nearly $24 billion on transit projects, more than $25 billion on roads and bridges, nearly $30 billion on major hospital and other health-care projects, and nearly $23 billion on schools and post-secondary facilities between 2007/08 and 2016/17.

Proper planning is necessary to ensure infrastructure needs are identified and existing infrastructure is adequately maintained and renewed for public use. Such planning must take into account the benefits of infrastructure investment, the risks to the public when needed facilities are not built or are allowed to deteriorate, and the resources required to meet future demand.

At the time of our audit in 2015, we noted that the Treasury Board Secretariat (Secretariat), which is responsible for reviewing and making recommendations to the government on infrastructure funding requests from ministries, generally evaluated each ministry's requests on a stand-alone, historical basis; it did no comparison at an overall provincial level to ensure the most pressing needs, within the combined ministries, receive top priority for funding.

Some of our significant observations included the following:

- Two-thirds of funding was planned to go toward building new assets and one-third to repairs and renewals of existing facilities; however, the Province's analyses determined that it should be the other way around in order to adequately maintain and renew existing public infrastructure.
- No guidelines existed for the desired condition at which facilities should be maintained, and ministries lacked consistency among themselves on how to measure the condition of asset classes such as highways, bridges, schools, and hospitals.
- Ontario lacked a reliable estimate of its infrastructure deficit—the investment needed to rehabilitate existing assets to an acceptable condition—to better inform where and when spending should be directed.
- An independent assessment calculated that the Ministry of Education needed $1.4 billion a year to maintain schools in a state of good repair. However, actual annual funding in the previous five years ranged from $150 million to $500 million.
- A similar assessment done for the Ministry of Health and Long-Term Care identified annual capital funding needs of $392 million for the province's hospitals. However, actual capital funding since 2010/11 was just $56 million and rose to $125 million in 2014/15.
- Our audit found that existing funding did not address significant pressures faced by ministries for new projects. For example, 100,000 students were using temporary

portables and about 10% of schools in the province were operating at over 120% capacity. Although portables are needed to provide some flexibility to address changes in school capacity, existing funding was not sufficient to renovate the existing buildings and to replace these structures with more permanent classrooms in some cases.

- The Secretariat did not know how well individual construction projects were managed. Our review of reports from the ministries to the Secretariat noted that information was generally reported at a program level only and not on individual projects within a program. Instead, the Secretariat relied on ministries to monitor individual projects.

Our audit report recommended, among other things, that the Secretariat do the following:

- work with ministries to better identify, measure and quantify the Province's infrastructure investment needs;
- ensure that ministries are putting forward viable strategies that address bridging the gap between actual infrastructure needs and available funding;
- ensure that funding strikes an appropriate balance between new projects versus repair/rehabilitation and replacement of existing assets to minimize lifecycle costs; and
- require ministries to report on project cost overruns and delays to monitor the status of significant infrastructure projects under way in the province.

We received commitment from the Secretariat that it would take action to address our recommendations.

Following the release of our audit report, the Ministry of Infrastructure was established as a stand-alone ministry on June 13, 2016 with a mandate to guide Ontario's infrastructure planning and develop a strategic approach to capital planning. The Ministry and Secretariat have been collaborating in addressing the recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017 and June 30, 2017. We obtained written representation from the Treasury Board Secretariat (Secretariat) and Ministry of Infrastructure (Ministry) that effective September 1, 2017, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

The status of each of our recommendations is as follows.

Complete, Reliable Information Needed for Effective Capital Planning

Recommendation 1

To better identify, measure and quantify the province's infrastructure investment needs, the Treasury Board Secretariat, working with ministries, should:

- *define how ministries should identify and measure the condition of all asset classes and determine how to assist those ministries that currently lack the capacity to do so;*
  Status: In the process of being implemented by May 2020.

Details

Our 2015 audit noted that there was no reliable estimate of the overall infrastructure deficit within the Government's portfolio of assets. Ministries lacked agreement among themselves on how to consistently measure and compare conditions of various asset classes and some ministries were not able to undertake this work. As a result, the information provided by ministries on asset conditions to the Treasury Board Secretariat (Secretariat) was inconsistent among ministries.

In September 2016, the Ministry started to work with the other provincial ministries to assess their

infrastructure planning practices. This action was in response to the need to develop an evidence-based and transparent infrastructure planning and investment process. The need for a new process was identified in our 2015 audit, in the *Infrastructure for Jobs and Prosperity Act, 2015* (proclaimed in May 2016), and in the 2016 Ministry of Infrastructure Mandate Letter from the Premier. The Ministry found significant variations across the ministries, including:

- inconsistent methods of managing assets, measuring state of good repair, and measuring whether the asset, such as a building or bridge, is functioning properly;
- incomplete data on infrastructure investments in renewal/rehabilitation versus expansion;
- no framework for prioritizing requests across sectors or between renewal/rehabilitation and expansion projects; and
- a lack of clarity on how a proposed infrastructure investment would contribute to the achievement of the desired or needed service level.

The initial results of this work and the Ministry's proposed three-year work plan to address the findings of the assessment were reported to the Treasury Board/Management Board of Cabinet in February 2017.

The actions in the three-year work plan include:

- update the Infrastructure Asset Management Framework to bring consistency, where possible, to how the Ontario Public Service manages assets and measures asset condition;
- develop a method for accurately tracking investments in renewal/rehabilitation versus expansion;
- design a cross-sector framework to prioritize projects; and
- create guidelines to bring consistency and transparency to ministries' methods for forecasting service needs and demand, where possible.

The Ministry anticipates working with the other ministries to improve the internal infrastructure planning process over the next three years, from May 2017 to May 2020, by carrying out the actions in the proposed work plan.

The Ministry also plans to conduct research, including the engagement of consultants, to inform asset management planning. This would include an update to the Infrastructure Asset Management Framework beginning this fiscal year.

- *provide guidance to ministries on the desired condition at which to maintain infrastructure assets;*

  Status: In the process of being implemented by May 2020.

Details

In September 2016, the Secretariat and the Ministry engaged a Canadian think-tank—a group of experts who give advice—to research best practices in other jurisdictions in managing and analyzing infrastructure data.

The Secretariat and the Ministry anticipate that the results of this work will help guide ministries in determining the desired condition at which to maintain their infrastructure assets. They also expect the results to help develop an infrastructure needs/benefits framework to get the greatest benefit from future investments.

Initial research completed by the think-tank in February 2017 found that an asset should be renewed when the annualized lifecycle cost of renewing it is less than the annualized cost of operating and maintaining the asset, as calculated by the ministries. The annualized lifecycle cost approach was identified as a best practice. The think-tank is in the process of confirming this research with experts in other jurisdictions and expects to complete this work by summer 2017.

After the work of the think-tank is completed, the Ministry anticipates that it will work with the Secretariat and ministries to strengthen asset management planning over the next three years, from May 2017 to May 2020. This planning will include a consistent approach for collecting and reporting

asset inventory information. Information on asset inventory will include the location, value, age and condition of provincial assets. The information will be used to identify key trends and expected needs for public infrastructure over the next 10 years.

- *publicly report on the progress made in achieving targets set for the desired condition for the province's infrastructure.*
  Status: In the process of being implemented by May 2020.

Details

As we noted in our 2015 audit report, the Government is required to make public a Long-Term Infrastructure Plan within three years of passing the *Infrastructure for Jobs and Prosperity Act, 2015*, which came into effect on May 1, 2016. Subsequent plans must be publicly available at least every five years after the first one is released. At minimum, these plans will be required to include:

- a description of provincial infrastructure assets, including an assessment of age, value and condition of the assets;
- an estimate of the Government's anticipated infrastructure needs for at least the next ten years; and
- a strategy to meet those needs.

The Ministry is currently working with the Secretariat and ministries to develop the infrastructure plan. This plan is expected to outline the age and condition of infrastructure assets and is expected to be released to the public by the end of 2017. However, it will not include information on the desired condition that ministries should maintain infrastructure assets. Research in this area is still ongoing, including the work by the Canadian think-tank as discussed above, which is expected to be completed by summer 2017. When research is completed, the Ministry anticipates that it will use the results to work with the Secretariat and ministries over the next three years, from May 2017 to May 2020, to improve the infrastructure planning process.

Existing Funding Does Not Address Significant Pressures Faced by Ministries for New Projects

Recommendation 2

The Treasury Board Secretariat should ensure that ministries put forward viable strategies that address bridging the gap between actual infrastructure needs and the funding allocated including options such as adjusting service levels, delivering the same service levels more efficiently, and internally realigning expenses.

Status: Fully implemented.

Details

As we reported in 2015, ministries are required to identify their potential infrastructure gap—the difference between their actual infrastructure needs and the funding allocated—and to identify strategies to bridge the gap, as part of their infrastructure plans. However, in our review of the plans submitted by ministries, we noted the strategy was often to defer their infrastructure needs to future years.

Since our audit, the Secretariat continues to require ministries to identify strategies to meet their infrastructure needs. The ministries also need to identify ways to complete infrastructure projects within the context of both provincial priorities and the ministries' share of funding.

In addition, as part of the process to develop their infrastructure plans, the ministries are now required to review their programs for effectiveness, efficiency and sustainability. Based on these assessments, they must identify opportunities to improve outcomes. This includes assessing risks when asking for changes to their programs. That assessment will be incorporated in the recommendations that are presented to the Treasury Board/Management Board of Cabinet for approval.

In the 2017/18 infrastructure plan submissions, we noted ministries had to complete a section entitled "Strategy to Meet Need" for each of their program areas. In contrast, the prior requirement was for a short description of strategies for the

ministry as a whole. For example, in the 2016/17 submission for condition of schools, the Ministry of Education's infrastructure plan submission had only a high level statement that said: "renewal, retrofit and/or replacement of existing schools based on condition." Compare this to the 2017/18 submission, which identified specific strategies that the Ministry of Education had carried out to address its needs. One of the strategies, for example, was directing school boards to apply their proceeds from the sale of assets to renovate their existing school inventory. The Ministry of Education is also continuing with a process to consolidate schools. The goal is to find savings through combining schools and to address the backlog of infrastructure renovation projects.

In September 2016, the Secretariat also created a group of ministry staff to help guide the development and analysis of infrastructure plan submissions from the ministries. The purpose of this group is the following:

- to serve as a place for ministries to have more consistent and frequent contact throughout the infrastructure planning process;
- to solicit ministry feedback in advance of releasing major new capital requirements; and
- to provide suggestions for improvements and collaborate on best practices. This would include discussing new requirements on strategies to meet the gap between the needs in the infrastructure plans and the funding that is available.

The group meets on a regular basis (for instance, seven times between September and December 2016 and plans to meet monthly during the next budget planning cycle) and the agenda is shaped by both the Secretariat and input from the ministries.

Funding Allocations Not Always Based on Need

Recommendation 3

The Treasury Board Secretariat should make use of all relevant and available ministry information such as the condition of assets and what is needed to meet target service levels in ensuring that funding allocations strike an appropriate balance between funding new projects versus funding repair/rehabilitation and replacement of existing assets to minimize lifecycle costs and prolong the life of assets.

Status: In the process of being implemented by December 2017.

Details

In our 2015 audit, we found that the Secretariat's internal analysis had noted that investments on new projects had historically been favoured over renewal projects. The Secretariat estimated that two-thirds of the Province's capital funding should go to renewing existing assets. However, the Province's 10-year capital plan for infrastructure spending that the ministries proposed had only about one-third of funding allocated to renewal.

After our audit, in fall 2016, the Secretariat began requiring ministries to identify how much of their capital spending is on renewal of assets. The Secretariat's analysis of the 2017/18 infrastructure plans submitted by the ministries found that an estimated 43% of funds allocated to capital were for renewal projects.

In addition, the ministries are also now required to submit detailed infrastructure plans that include:

- a summary inventory of their assets;
- a description of the differences between current and target service levels; and
- a strategy to meet renewal and expansion needs based on long-term forecasts of service levels.

The Ministry of Infrastructure is also currently updating its analysis of investments needed to maintain service levels. Its goal is to find a balance between repairing existing assets and expansion in order to meet demographic growth. This analysis will use simulation scenarios to look at trade-offs across the sectors and at trade-offs between renewal and expansion.

The simulations will track existing assets over time and take into consideration that these assets

will get older, deteriorate in condition, and require investments to keep in a state of good repair. New assets can be added to either replace existing assets or to account for expansion. The amount of investment in the scenarios determines how much rehabilitation, replacement and expansion can be undertaken. The costs and benefits of the investment scenarios can be compared, once the initial investment is established.

The Ministry, working with the Secretariat, expects to improve the infrastructure planning process using this analysis and data in the Long-Term Infrastructure Plan, which is expected to be released by the end of 2017.

Recommendation 4

To ensure the Province makes the most effective infrastructure investments, the Treasury Board Secretariat should ensure that funding allocated to ministries is supported by an objective analysis of needs prioritized on a province-wide basis as well as by individual ministries.

Status: In the process of being implemented by May 2020.

Details

After our audit, in December 2016 and January 2017, the Ministry met with ministries that have capital assets to assess their approaches to asset management, project prioritization and service level/needs planning. The findings from these meetings identified:

- the need for improved asset management, including province-wide consistency in measuring the condition of assets and how well they are functioning;
- that deferred maintenance is a significant concern; and
- that funding needs to shift from expansion to renewal projects.

In February 2017, the Ministry proposed to the Treasury Board/Management Board of Cabinet two key recommendations to address these findings:

- develop a new 12-month planning cycle to provide more time for in-depth planning in advance of fiscal decision-making; and
- develop a new method to prioritize investments within and across sectors.

The Secretariat expects to provide more details of the changes to the infrastructure planning process by the end of 2017.

The Ministry is also working on two tools for economic analysis that it will use for two purposes: to assess the appropriate level of public stock and investment to achieve the most economic growth; and to give funding to the sectors that provide the largest impact on provincial gross domestic product (GDP). The two models are:

- Optimal method—determines the total amount that should be invested in public infrastructure to maximize long-term GDP impact and the number of jobs supported; and
- Efficient allocation—estimates in which sectors the highest marginal returns on GDP are achieved through infrastructure investments.

These two models are still under review and development, and the Ministry is working on confirming the data and methodology before making them part of the budget planning process. The Ministry will use the results from applying the above tools to inform recommendations it provides to the Secretariat on infrastructure funding requests made by ministries.

As well, over the next three years, from May 2017 to May 2020, the Ministry will be working with the Secretariat and provincial ministries to develop a cross-sector framework for determining infrastructure investment priorities.

Inadequate Review by Secretariat of Ministry Submissions

Recommendation 5

To ensure an appropriate review of ministries' proposed infrastructure plans, the Treasury Board Secretariat should:

- *ensure that proper documentation of analysts' work is completed and made centrally accessible and provide the training necessary to address knowledge gaps;*

  Status: Fully implemented.

Details

After our audit, the Secretariat updated its Analyst Guide to Infrastructure to include detailed instructions for managing records. This step ensures that the assessment of infrastructure funding requests and recommendations to Treasury Board/Management Board of Cabinet is properly documented. The guide specifies keeping analysis and assessment notes, as well as email correspondence, meeting notes and other documents that support the analysis and recommendations.

The Secretariat now has a folder on its shared drive, where all documentation to support infrastructure investment recommendations to Treasury Board/Management Board of Cabinet must be saved in appropriate folders and be centrally accessible.

The Secretariat also updated its Capital Planning Division Analyst Checklist. The checklist reminds analysts to have all back-up documentation and source data organized in a clearly marked binder and to save all sign-off material in a folder on the shared drive, not on their local drive, before final sign-off.

In order to address gaps in training noted in our 2015 audit report, the Secretariat launched a new training curriculum in June 2016. Courses included:

- broad concepts of government decision-making, appropriations, capital planning overview, and financial concepts;
- training on collaboration with the Ontario Financing Authority; and
- technical courses on cap and trade, and infrastructure analytics, which includes analyzing and interpreting complex data, for improved decision-making.

Although attendance was not mandatory, according to the Secretariat's records, capital analysts employed at the Secretariat attended an average of four courses (out of seven available courses) in summer 2016.

- *amend the tools that analysts currently use to assess ministry proposals to better enable them to clearly determine whether key criteria have been satisfied by a project proposal, and train all analysts in the consistent use of these tools.*

  Status: Fully implemented.

Details

At the time of our audit in 2015, the tools that analysts used to assess ministry proposals included an analysis checklist, a prioritization-scoring template, and a best-practices guide. However, in our review of these tools, we found they did not ensure that infrastructure requests met the Secretariat's criteria to support recommendations, such as aligning with government policy objectives and addressing imminent health or safety risks.

After our audit, between February 2016 and July 2016, the Secretariat completed an assessment of its current suite of tools used during assessment of proposals. Key findings of this assessment included the need to:

- clearly articulate submission expectations to ministries;
- ensure ministries are providing multiple, realistic options as part of their submission with clear rationale as to why the preferred option was chosen;
- link the initiative at hand to current related government activities; and
- clearly articulate citations and assumptions for analysis in the submissions.

In addition, the Secretariat introduced or amended the following tools to ensure the appropriate information is available to support its analysis:

- Interest Calculator to determine interest on debt;

- Proportion Renewal Report to track renewal and expansion activities of ministries;
- Analysts Guide to Capital Planning;
- Capital Planning Division Analysts Checklist; and
- Borrowing Template to determine borrowing requirements for capital.

In addition to these tools, the Secretariat made it a requirement for analysts to prepare sector and ministry overviews to brief the Assistant Deputy Minister of the Secretariat's Capital Planning Division in advance of the analysts receiving ministry submissions. The exercise of preparing for the brief helped to improve analyst expertise on the files and ensured they focused on issues and concerns that were identified in previous years' infrastructure plans.

Training on the use of these new and amended assessment tools was incorporated into the new training curriculum that began in early 2016 as noted in the first bullet point of **Recommendation 5**.

Insufficient Monitoring of Infrastructure Spending

Recommendation 6

To ensure adequate monitoring of infrastructure investments in the province, the Treasury Board Secretariat should require ministries to report information on project cost overruns and delays to inform future decisions and to monitor the status of significant infrastructure projects under way in the province.
Status: Fully implemented.

Details

In August 2015, the Treasury Board/Management Board of Cabinet issued a new directive—the Directive for Major Public Infrastructure Projects—to support the planning and approval of major infrastructure projects. This directive applies to all major public infrastructure projects with the following characteristics:

- the projects have provincial funding of $20 million or more. The exception is the transportation sector. For this sector, the directive applies when provincial funding is $50 million or more for expansion projects, and $75 million or more for rehabilitation projects;
- the projects pose significant risk to the government because of a high probability of an event that could prevent achieving the project's objectives; or
- the projects are of significant interest to the province.

Under this new directive, ministries must report quarterly:

- on all approved major public infrastructure projects for which a construction contract was awarded during the quarter;
- on all major projects for which construction is under way; and
- on projects that were substantially completed during the quarter.

The reporting requirements were rolled out to all ministries in January 2017 for the third quarter of the 2016/17 fiscal year. They specify the information ministries are to report. The information includes the project status, cost and timelines, and any variances from the approved project terms. In future quarters, variances will also be tracked quarter-over-quarter to demonstrate project changes over time. If a project's scope, schedule or cost changes substantially, a description and risk assessment is also required. See **Figure 1** for a summary of the quarterly reporting process.

In addition, the Treasury Board/Management Board of Cabinet also created the Infrastructure Delivery Leadership Council (Council) in September 2016 as envisioned in the directive to:

- analyze and recommend an infrastructure delivery model;
- review proposed changes to project scopes, timing, project financing and/or delivery model. The Council would approve minor variations and escalate significant changes

to Treasury Board/Management Board of Cabinet; and
- administer the quarterly risk-based reporting on major projects.

This Council is an executive-level committee. It is chaired by the Assistant Deputy Minister of Capital Planning Division, has a Vice-Chair from the Ministry of Infrastructure, and its members are representatives from ministries that have major capital assets.

The directive requires ministries to provide the quarterly reports to the Secretariat.

In May 2017, the Secretariat presented the first quarterly report to the Council. The report listed 52 projects with a total project cost of $28.1 billion. Of the 48 projects under construction during the quarter, five were identified as high risk for delay or cost overruns:
- three from the Ministry of Transportation relating to the procurement of light rail vehicles;
- one from the Ministry of Health and Long-Term Care on a hospital expansion project; and
- one from the Ministry of the Attorney General relating to a courthouse project.

The Secretariat will present the quarterly report to the Treasury Board/Management Board of Cabinet and continue to monitor and review these projects as part of the quarterly reporting process.

Figure 1: Quarterly Reporting Process

Source of data: Treasury Board Secretariat

Ministries
• Report on status of projects using tools and processes outlined by the Treasury Board Secretariat
• May advise on status of high-risk projects as required
Treasury Board Secretariat
• Reviews quarterly submissions from ministries
• Assesses levels of risk to project scope, cost and timing/schedule
Infrastructure Delivery Leadership Council (Council)
• Reviews and approves risk report on projects
• Provides recommendations to Treasury Board/ Management Board of Cabinet based on results of risk-based quarterly reporting
Treasury Board/Management Board of Cabinet
• Reviews report from the Council on the status of major projects
• Provides additional direction as needed after review of Council report on major projects

Chapter 1
Section
1.08 LHINs—Local Health Integration Networks

Follow-Up on VFM Section 3.08, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3	2	1		
Recommendation 2	1		1		
Recommendation 3	2		2		
Recommendation 4	3	2	1		
Recommendation 5	2		2		
Recommendation 6	1	1			
Recommendation 7	2	1	1		
Recommendation 8	3	2		1	
Recommendation 9	3		3		
Recommendation 10	3	3			
Recommendation 11	3	1	2		
Recommendation 12	2		2		
Recommendation 13	1	1			
Recommendation 14	1			1	
Recommendation 15	1		1		
Recommendation 16	1	1			
Recommendation 17	1	1			
Recommendation 18	2		2		
Recommendation 19	1	1			
Recommendation 20	1	1			
Total	**37**	**17**	**18**	**2**	**0**
%	**100**	**46**	**49**	**5**	**0**

Overall Conclusion

According to the information the Ministry of Health and Long-Term Care (Ministry) and the Local Health Integration Networks (LHINs) provided to us, as of May 31, 2017, 46% of the actions we recommended in our *2015 Annual Report* had been fully implemented. For instance, the Ministry was analyzing the reasons for the gaps in performance of LHINs and had clarified under what circumstances it, as opposed to the LHINs, is responsible for establishing common approaches to delivering health services. As well, the LHINs developed a framework to use for approving Urgent Priorities Fund applications to allow for consistent decision-making, and had established a common complaint-management process that clearly defined methods for informing the public on how to register complaints. The Ministry and the LHINs had made progress in implementing another 49% of the recommendations. For instance, the LHINs developed a framework for assessing the impact of integration initiatives but had not yet fully implemented it. As well, the Ministry was working toward undertaking a comprehensive review of performance indicators to assess the appropriateness of current indicators and consider any new or revised indicators to reflect changes in the health-care system. However, there had been little or no progress on other actions. For example, the LHINs, in collaboration with Health Quality Ontario, had done little to assess patients' satisfaction with their health-service providers and the extent to which they feel they are receiving quality services, and there had also been little work done by LHINs to identify opportunities to save costs through back-office integration among health-service providers.

The status of actions taken on each of our recommendations is described in this report.

Background

Ontario's 14 Local Health Integration Networks (LHINs) were established by the *Local Health System Integration Act, 2006* (Act). LHINs began assuming their role in managing local health services in April 2007, under the responsibility of the Ministry of Health and Long-Term Care (Ministry), replacing the Ministry's seven regional offices and 16 district health councils. By July 2010, LHINs had fully assumed their role over public and private hospitals, long-term-care homes, Community Care Access Centres, community mental health and addiction agencies, community support service agencies, and community health centres. In the year ending March 31, 2017, LHINs provided health-care organizations within these six sectors a total of about $26 billion in funding ($25 billion in the 2014/15 fiscal year), which in both years represented slightly more than half of the provincial health-care budget.

Each LHIN is a not-for-profit Crown agency that covers a distinct region of Ontario. The regions vary in size and have different service delivery issues and health-service providers, and their populations have different health profiles. In the 2016/17 fiscal year, the operational expenditures of the 14 LHINs totalled $90 million (as they did in the 2014/15 fiscal year), or about 0.4% of the Ministry's $26 billion in LHIN funding (also 0.4% in the 2014/15 fiscal year). Most of these expenditures were for the health-care organizations that LHINs fund.

Under the Act, LHINs are responsible for "[achieving] an integrated health system and [enabling] local communities to make decisions about their local health systems." The Act sets out the LHINs' obligation to plan, fund and integrate local health systems.

Our 2015 audit found that the Ministry had not clearly determined what would constitute an integrated health system, or by when it should be achieved. As well, the Ministry had not developed

ways to measure how effectively LHINs are performing as planners, funders and integrators of health care.

We also noted that if achieving their mandate to provide the right care at the right time consistently throughout the health system meant that LHINs should have met all expected performance levels that were measured, then they had not succeeded at the time of our audit in 2015. We found that, while province-wide performance in six of the 15 areas measured had improved from when the LHINs were created to 2015, in the remaining nine areas, performance had either stayed relatively consistent or had deteriorated since 2010 or earlier. For instance, a greater percentage of hospital days were used by patients who no longer needed acute care in a hospital setting for the year ending March 31, 2015, compared to 2007.

Most LHINs performed below expected levels in the 2014/15 fiscal year; on average, LHINs achieved their respective local targets in only six of 15 performance areas. The best-performing LHIN met local targets in 10 areas, and four LHINs met only four. Provincial results that include all 14 LHINs showed that only four of 11 provincial targets that measure long-term goals were met. Other significant observations we made in 2015 included the following:

- Due to inconsistent and variable practices that still persisted across the province, patients faced inequities in accessing certain health services. These variances meant that, depending on where they live, some people experienced better access to better integrated health care than others, and some people were not receiving health care in the setting that best met their health needs and, sometimes, at a much higher cost than necessary.
- The Ministry took little action to hold LHINs accountable when they did not meet targets. This had contributed to performance issues persisting for years. For instance, one of the four LHINs we visited did not meet the wait-time target for MRI scans in six of the eight years leading up to March 31, 2015. Another did not meet its hip-replacement wait-time target in seven of the last eight years. When an expected performance was not achieved in one year, the Ministry made the target more lax for the following year for some LHINs; yet, for other LHINs, the Ministry kept the target the same or made it more stringent.
- The performance gap among LHINs had widened over time in 10 of the 15 performance areas. For instance, patients in the worst-performing LHIN waited 194 days to receive semi-urgent cataract surgery in 2012, which was five times that of the best-performing LHINs. Three years later, this performance gap widened from five times to 31 times. The Ministry needed to better understand the reasons for the widening gap and implement changes to narrow that gap if it wanted to achieve the goal of ensuring health service levels do not vary significantly across the province.
- LHINs must better monitor health-service providers' performance. At the four LHINs we visited (Central, Hamilton Niagara Haldimand Brant, North East, and Toronto Central), we found that the quality of health service was not consistently monitored, performance information submitted by health-service providers (some of which contained errors) was not verified, and providers who did not perform well were not consistently dealt with in accordance with Ministry guidelines.
- Tracking of patient complaints lacked rigour and there was no common complaint-management process across LHINs, and LHINs did not always ensure that patient complaints are appropriately resolved. Across the province, three LHINs did not track complaints at all in 2014, or only partially tracked them.
- LHINs could not demonstrate that they have maximized economic efficiencies because the use of group purchasing and back-office integration differed across the LHINs we visited.

In our report, we recommended that the Ministry establish a clear picture of what a fully integrated health system looks like; analyze the reasons for the widening gap in the performance of LHINs in key performance areas; require LHINs to establish reasonable timelines to address performance gaps and monitor their progress; clarify with the LHINs what authority they have to reallocate funding among health-service providers; and finalize the annual funding each health-service provider will receive before the fiscal year begins or as early in the current fiscal year as possible.

We also recommended the LHINs take appropriate remedial action according to the severity and persistence of performance issues identified at health-service providers; establish a common complaint-management process; and develop and implement action plans with timelines to address the service gaps identified in all health services in their regions.

We made 20 recommendations, consisting of 37 actions needed for improvement, and received commitments from the Ministry and the four LHINs we visited during the audit that they would take action to address them.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and May 31, 2017. We obtained written representation from the Ministry of Health and Long-Term Care and the four Local Health Integration Networks (Central, Hamilton Niagara Haldimand Brant, North East, and Toronto Central) that, effective September 1, 2017, they had provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Performance Improved Only in Limited Areas over Time and Varies from One LHIN to the Next; Variation Widens over Time for Two-Thirds of Measured Areas

Recommendation 1

To minimize the differences in health service performance among Local Health Integration Networks (LHINs) across the province, the Ministry of Health and Long-Term Care, in conjunction with the LHINs, should:

- *analyze the reasons for the widening gap in the performance of LHINs in key performance areas;*
  Status: Fully implemented.

Details

In our 2015 audit, we reported that the performance gap among LHINs from 2012 through 2015 increased in 10 of the 15 areas of performance selected by the Ministry for measuring the effectiveness of LHINs. For instance, in 2012, patients in the worst-performing LHIN waited 194 days, or five times that of the best-performing LHIN, to receive semi-urgent cataract surgery. Three years later, this performance gap widened from five times to 31 times. We noted that the Ministry needed to better understand the reasons for the widening gap in the performance of LHINs so it can take appropriate action to reduce the gaps. At the time of this follow-up, the Ministry was collecting a quarterly performance report from each LHIN that included an analysis of strengths and challenges that resulted in gaps in performance relative to other LHINs. The Ministry informed us that it analyzes these reports and follows up with LHINs to better understand challenges that they are facing in meeting performance targets.

- *establish the degree of variation it would consider acceptable among LHINs' performance in each measured performance area;*
  Status: Fully implemented.

Details

In our 2015 audit, we noted that the Ministry had a goal of reducing the performance gap among LHINs over time so that the level of health service does not vary significantly across the province, but the Ministry had not indicated what degree of variation it would consider acceptable in each of the performance areas. In the current Ministry-LHIN accountability agreement covering the 2015/16 to the 2017/18 fiscal years, the Ministry introduced provincial targets that are consistent for all LHINs.

- *set timelines for bringing the performance gaps among LHINs to acceptable levels.*
  Status: In the process of being implemented by March 2018.

Details

The current Ministry-LHIN accountability agreement covering the 2015/16 to the 2017/18 fiscal years has consistent provincial targets for all LHINs. The Ministry informed us that it expects all LHINs to demonstrate progress toward achieving these provincial targets by March 2018, which is the end of the term for the current agreement.

None of the LHINs Were Able to Meet All Performance Targets and the Ministry Could Do More to Help LHINs Improve Their Performance

Recommendation 2

To help ensure that patients across the province receive targeted levels of care, the Local Health Integration Networks should better manage capacity and demand for community-based services and MRI scans within their individual regions.

Status: In the process of being implemented by December 2018.

Details

We noted in our 2015 audit that most LHINs performed below targeted levels in critical areas, such as repeat unscheduled emergency visits for patients with mental-health or substance-abuse conditions within 30 days of a previous visit, and patients having to wait 28 days or more for non-urgent MRI scans. The Ministry and the LHINs cited lack of effective and available community-based mental-health and addiction services and inability to meet increasing demand for non-urgent MRI scans as reasons for these performance concerns. At the time of this follow-up, the LHINs were supporting the Ministry to develop a capacity-planning framework for home and community care. Individual LHINs had also begun conducting various capacity-planning initiatives. For example, two neighbouring LHINs and representatives from their health-service providers engaged a third-party firm to assess community needs and capacity and determine current and forecast gaps in service. With respect to MRI scans, the LHINs had also identified five practices to try and address demand and capacity issues within their individual catchment areas, including a central-intake model, a practitioner education session, and process improvement projects in areas such as booking and scheduling of MRIs. The LHINs informed us that implementing these practices would take time and that they expected work to be complete by December 2018.

Recommendation 3

To help ensure that patients across the province receive consistent levels of care, the Ministry of Health and Long-Term Care should:

- *ensure that capacity and demand for community-based services and MRI scans are managed province-wide with consideration to existing resources;*
  Status: In the process of being implemented by December 2018.

Details

At the time of this follow-up, the Ministry had drafted a framework to guide capacity planning and help the Ministry and LHINs with decision-making for local services, including those that are

community-based. The Ministry was also assessing the usefulness of a capacity-planning and demand-prediction tool to assist with determining MRI funding requirements. In addition, the Ministry informed us that it was working with LHINs to evaluate and implement MRI efficiency practices, including those listed in **Recommendation 2**.

- *develop the provincial plan on health-care needs in rural and northern communities according to its commitment in 2007.*
  Status: In the process of being implemented by March 2018.

Details

As part of a broader provincial plan on health-care needs in rural and northern communities, the Ministry announced in August 2016 $2.5 million in funding over three years for five rural health-hub pilot sites, four of which are in northern communities. These health hubs are working to create systems that provide individuals with a full continuum of health services, and they are expected to improve access to health-care services. At the time of our follow-up, the Ministry was working with LHINs to engage various health-service providers to help in the implementation of these hubs, and expected all hubs to have developed a work plan by March 2018 that moves them toward becoming fully integrated with the health-care system.

Recommendation 4

To ensure Local Health Integration Networks (LHINs) perform at desired levels, the Ministry of Health and Long-Term Care, in conjunction with the LHINs, should:

- *communicate best practices observed in well-performing LHINs to LHINs that need intervention so the latter can identify potential solutions to performance shortfalls;*
  Status: Fully implemented.

Details

As part of its quarterly reporting to the Ministry, each LHIN is expected to provide details on initiatives that have improved or are expected to improve performance. The Ministry makes each LHIN's quarterly report available to all the LHINs, thereby enabling all LHINs to review peer reports and identify initiatives that have improved performance.

- *assist LHINs in analyzing the root causes of performance gaps and determining appropriate action to address ongoing issues;*
  Status: Fully implemented.

Details

As part of its quarterly reporting to the Ministry, each LHIN is expected to identify factors that have affected performance and outline initiatives that are under way to address performance issues. The Ministry informed us that it provides data analytics and policy research to LHINs and consults them on provincial priorities and strategies to address ongoing issues.

- *require LHINs to establish reasonable timelines to address performance gaps and monitor their progress accordingly.*
  Status: In the process of being implemented by March 2018.

Details

As part of its quarterly reporting to the Ministry, each LHIN is expected to outline initiatives to improve performance gaps. The Ministry informed us that it monitors and discusses LHIN progress against these initiatives. As well, the Ministry set common performance targets for all LHINs in the current Ministry-LHIN accountability agreement and informed us that it expects all LHINs to demonstrate progress toward these targets by March 2018.

Recommendation 5

To ensure that Local Health Integration Networks (LHINs) are assessed objectively and comprehensively

on their operational effectiveness and for all health sectors that they manage, the Ministry of Health and Long-Term Care should:

- *develop LHIN-specific performance targets that reflect current evidence-based benchmarks;*
  Status: In the process of being completed by March 2018.

Details

The Ministry informed us that it would be undertaking a comprehensive review of all performance indicators included in the current Ministry-LHIN accountability agreement and expected to complete this work by March 2018. This review is expected to assess the appropriateness of current indicators and consider any new or revised indicators to reflect changes in the health-care system, such as those resulting from the implementation of the *Patients First Act, 2016*.

- *examine the appropriateness of including additional performance indicators not currently in those recommended by the Indicators Advisory Group and finalize the implementation of the performance indicators that measure non-hospital-sector performance as well as co-ordination of health services.*
  Status: In the process of being implemented by March 2018.

Details

The current Ministry-LHIN accountability agreement includes nine new performance indicators, some of which measure non-hospital-sector performance or co-ordination of health services. The following are some examples of new performance indicators:

- the percentage of home-care clients who received their nursing visit within five days of the date they were authorized for nursing services;
- the hospitalization rate for ambulatory-care-sensitive conditions (conditions that, if treated correctly in the community, should likely not result in hospitalizations); and
- the percentage of acute-care patients who had a follow-up with a physician within seven days of discharge.

Another seven performance indicators were expanded to capture wait times for additional priority levels of surgeries, including cataract and cancer surgeries.

We noted that all changes to the performance indicators were consistent with recommendations made by the Indicators Advisory Group. The Ministry informed us that it would be completing a comprehensive review of all performance indicators by March 2018 and that this review may result in new and revised indicators.

Recommendation 6

To better meet Local Health Integration Networks (LHINs)' mandate of integrating local health systems, the Ministry of Health and Long-Term Care should determine how best LHINs can manage the primary-care sector.

Status: Fully implemented.

Details

Under the *Patients First Act, 2016*, which received royal assent in December 2016, the *Local Health System Integration Act, 2006* was amended to include LHIN primary care planning functions and expand the definition of a health-service provider under a LHIN to include family health teams; nurse practitioner-led clinics; Aboriginal Health Access Centres; entities providing primary care nursing services, maternal care or inter-professional primary care programs and services; hospices and other non-profit palliative care service providers; and, physiotherapy clinics. Thus, the LHINs have an expanded role with respect to primary care planning and performance improvement. This accountability relationship does not include primary-care physicians, which will remain the responsibility of the Ministry. All LHINs are now also required to participate in the development and implementation of health-promotion

strategies in co-operation with primary health-care services, public health services and community-based services. The *Local Health System Integration Act, 2006* amendment also includes a provision that, if proclaimed, could allow LHINs to support planning of primary-care services, including physician services, by requiring physicians to notify them of practice changes such as upcoming retirements or extended leaves, to ensure timely access and improve patient outcomes.

Recommendation 7

To ensure Ontario benefits from a fully integrated health system in the foreseeable future, the Ministry of Health and Long-Term Care should:

- *establish a clear picture of what a fully integrated health system looks like, its milestones and final targets, and timelines for when LHINs should achieve those targets;*
  Status: In the process of being implemented by April 2018.

Details

In February 2015, the Ministry released the report *Patients First: Action Plan for Health Care*. This report contained broad goals of what a fully integrated health system would achieve. For example, the report looked at improving access to the right care, delivering better co-ordinated and integrated care in the community, and providing education and information to support people in making decisions about their health. As well, the *Patients First Act, 2016*, which was enacted in December 2016, allows for the legislative and structural changes to streamline and reduce administration of the health-care system, direct savings to patient care, and improve local connections between primary-care providers, interprofessional health-care teams, hospitals, public health, and home and community care. As part of the LHIN renewal, the Ministry established the following six high-level goals:

- effective integration of services and greater equity through sub-regions;
- timely access to, and better integration of, primary care;
- more consistent and accessible home and community care;
- stronger links to population and public health;
- services that meet the needs of Indigenous people; and
- inclusion of Indigenous voices in health-care planning.

At the time of this follow-up, the Ministry was working with the LHINs on the development of indicators for these six goals that will measure the success of an integrated health system. Examples under consideration include wait times for addiction treatment programs, percentage of health-service providers that actively offer French language services, and percentage of complaints acknowledged to the person who made the complaint within two, five and 10 business days. These indicators, however, do not measure activities that are not under the control of the LHINs, such as public health and most primary care. The Ministry expects that an updated set of indicators and, where necessary, targets, will be included in the accountability agreement between the Ministry and the LHINs effective April 1, 2018.

- *require that LHINs develop performance measures and targets to meet the goals they propose in their three-year strategic plans, and report on their results.*
  Status: Fully implemented.

Details

Each year, LHINs are required to submit an Annual Business Plan describing how they will implement the health-care strategies outlined in their Integrated Health Service Plans. At the time of this follow-up, these business plans included the identification of performance measures to assess the progress that the LHIN has made each year. The LHINs' annual reports to the Minister of Health and Long-Term Care included the results of these performance measures.

LHINs' Oversight of Health Service Providers Needs Strengthening

Recommendation 8

To help improve patient care and quality of health services, Local Health Integration Networks, in collaboration with Health Quality Ontario, should:

- *assess patients' satisfaction with their health-service providers and the extent to which they feel they are receiving quality services;*
  Status: Little or no progress.

Details

In our 2015 audit, we noted that while LHINs were required to undertake strategies to improve patient care, they seldom measured the quality of health services. Two of the four LHINs we visited took steps to measure patient satisfaction, but the other two did not. In August 2016, the Ontario Patient Experience Measurement Committee, an advisory committee co-chaired by Health Quality Ontario (an agency created in 2005 to provide advice to the Ministry of Health and Long-Term Care on the quality of health care) and the LHINs, released the Ontario Patient Experience Measurement Strategy. This strategy identified a number of recommendations for improving the measurement of patient experience, including developing a co-ordinated provincial reporting strategy for patient experience across sectors. Our review of the strategy found that there was a significant amount of work that needed to be done and that it would take place over a span of four years, with all sectors measuring patient experience by 2020. At the time of this follow-up, the LHINs informed us that Health Quality Ontario had begun work to identify and develop a set of indicators to measure patient experience and that the work was ongoing.

- *assess whether a quality improvement plan should be required of all health-service providers;*
  Status: Fully implemented.

Details

A quality improvement plan is a documented set of quality commitments that a health-care organization makes each year to its patients, clients, residents, staff and community. The *Excellent Care for All Act, 2010* (Act) requires certain health-care organizations to submit quality improvement plans to Health Quality Ontario. Under the Act, all hospitals, long-term-care homes, Community Care Access Centres and other primary-care organizations (such as community health centres), but not mental-health and addiction agencies and community support service agencies (which are also overseen by LHINs), are to prepare quality improvement plans and submit them to Health Quality Ontario. In May 2016, representatives from both Health Quality Ontario and the LHINs worked together to identify ways to complement the quality and performance tools already in use. The working group made several recommendations to better align quality improvement plans with health-service-provider accountability agreements. Senior management at the LHINs subsequently agreed to implement these recommendations, which include requiring all health-service providers under the oversight of LHINs to either submit a quality improvement plan to Health Quality Ontario and the LHIN or to be engaged in quality improvement initiatives and capacity building.

- *ensure health-service providers implement the actions contained in the quality improvement plans.*
  Status: Fully implemented.

Details

In our 2015 audit, we noted that neither the LHINs nor Health Quality Ontario ensured that health-service providers implement the actions identified in the submitted quality improvement plans. At the time of this follow-up, Health Quality Ontario was reporting back to LHINs on the progress of quality initiatives and providing a high-level analysis of results. The LHINs informed us that they are able to run queries to determine the progress and results of

quality initiatives by health-service providers using a tool available on Health Quality Ontario's website.

Recommendation 9

To ensure that performance issues of health-service providers are addressed in an appropriate and timely manner, Local Health Integration Networks (LHINs) should:

- *clarify with the Ministry of Health and Long-Term Care whose responsibility it is to verify data submitted by health-service providers; if it is the LHINs' responsibility, verify on a sample basis information submitted by health-service providers;*
  Status: In the process of being implemented by December 2018.

Details

In our 2015 audit, we found that neither the Ministry nor the LHINs were routinely verifying that data submitted by health-service providers was accurate and reliable. Subsequent to our audit, the LHINs developed a data quality oversight framework that clarified responsibilities with respect to data and highlighted areas for improvement. At the time of this follow-up, this framework identified the Ministry as having the primary responsibility to verify data submitted by health-service providers, while LHINs had a secondary responsibility with respect to assessing the reasonableness of data submitted. Further work to implement this recommendation has been put on hold due to changes in LHINs resulting from the *Patients First Act, 2016* and an upcoming review of the Ministry-LHIN Accountability Agreement terms and indicators. The LHINs informed us that they expected to implement this recommendation by December 2018.

- *take appropriate remedial action according to the severity and persistence of performance issues;*
  Status: In the process of being implemented by December 2018.

Details

In our 2015 audit, we noted that the four LHINs we visited predominantly discussed and shared information with health-service providers (as opposed to ensuring that performance issues were resolved), even for performance issues that were of long standing. The LHINs explained that they used this strategy because they wanted to maintain a positive working relationship with their health-service providers, who are not directly governed by the LHINs, and to work with them to identify solutions. In December 2016, the LHINs developed a performance oversight and performance management framework that recommended focusing work on performance issues in areas of high risk. These frameworks do not set out specific policies or practices that must be consistent across the province; each LHIN continues to have the independence to manage performance issues and take remedial action as it sees fit. The LHINs informed us that further work on this recommendation would continue as part of the ongoing changes due to the *Patients First Act, 2016* and an upcoming review of the Ministry-LHIN accountability agreement terms and indicators, and that the recommendation would be implemented by December 2018.

- *follow up with health-service providers to ensure they provide explanations of performance shortfalls and take effective corrective actions to resolve issues according to a committed timeline.*
  Status: In the process of being implemented by December 2018.

Details

The performance oversight and performance management frameworks developed by the LHINs in 2016 identify principles and elements for LHINs to consider when following up with health-service providers on performance shortfalls. At the time of our follow-up, the LHINs had put further work on this recommendation on hold as a result of ongoing changes due to the *Patients First Act, 2016* and an upcoming review of the Ministry-LHIN accountability agreement terms and indicators, and

expected to implement this recommendation by December 2018.

Recommendation 10

To ensure patients receive quality health services, and to facilitate collaboration between Local Health Integration Networks (LHINs) and the Patient Ombudsman, LHINs should:

- *establish a common complaint-management process that, among other things, clearly defines the methods for informing the public on how to register complaints;*
  Status: Fully implemented.

Details

In our 2015 audit, we noted that all LHIN CEOs had agreed in 2014 that LHINs should manage patient complaints consistently but had not yet established a common complaint-management system. In December 2016, the LHINs developed and approved for use the Pan-LHIN Model for Complaints Management that provided LHINs with guidelines and tools to address complaints consistently. At the time of this follow-up, all LHINs had clearly defined on their websites how individuals could register complaints with the LHIN. All LHINs also included a website link and/or details about the role of the Patient Ombudsman.

- *implement processes to determine whether health service providers have established policies and procedures to address and satisfactorily resolve patient complaints;*
  Status: Fully implemented.

Details

All health-service providers in the community and long-term-care sectors must submit to their LHIN an annual declaration of compliance indicating their fulfilment of service accountability agreement requirements, which includes a requirement to "address complaints about the provision of services, the management or governance of the health-service provider." Hospitals are required under the *Excellent Care for All Act, 2010* to have a patient-relations process in place for receiving, reviewing and addressing complaints from patients and caregivers. Hospitals agree to follow all applicable legislation in their signed agreement with the LHIN.

- *clarify the working relationship between LHINs and the incoming Patient Ombudsman.*
  Status: Fully implemented.

Details

The Patient Ombudsman began receiving and responding to complaints from patients about public hospitals, long-term-care homes and Community Care Access Centres (which were transitioned to LHINs during this follow-up) in July 2016. In summer 2016, the LHINs consulted with the Patient Ombudsman as part of the development of the Pan-LHIN Model for Patient Complaints Management. The LHINs informed us that this consultation helped clarify the working relationship between the two parties, specifically noting that the LHINs will continue to have a role in addressing patient complaints for all LHIN health-service providers.

Processes Used to Plan and Integrate the Health System Need Improvement

Recommendation 11

To best meet the patients' health-care needs, Local Health Integration Networks should:

- *assess the effectiveness of each community engagement activity as required by the* LHIN Community Engagement Guidelines and Toolkit *issued by the Ministry of Health and Long-Term Care;*
  Status: Fully implemented.

Details

We noted in our 2015 audit that the Ministry's 2011 *LHIN Community Engagement Guidelines and Toolkit* required LHINs to evaluate the success of their engagement activities, but we found that only

one of the four LHINs we visited consistently evaluated their community-engagement activities in the three-year period ending in March 2015. In June 2016, the LHINs revised the guidelines to better align with current best practices and re-released it with the title *LHIN Community Engagement Guidelines—Revised*. The revised guidelines include a requirement for LHINs to evaluate engagement activities for effectiveness. To assist with tracking and evaluation of these activities, the LHINs developed and began using a tracking sheet that captures details such as the purpose of the engagement, the number of participants, feedback from participants and engagement evaluation results.

- *begin to collect, over a reasonable time period, the data needed to determine the existing capacity of all health services in their regions;*
  Status: In the process of being implemented by December 2017.

Details

In our 2015 audit, we noted that concerns had been raised about insufficient capacity planning in the areas of palliative care, home and community care, and rehabilitative services. At the time of this follow-up, the LHINs were supporting the Ministry in developing a capacity planning framework for home and community care. All LHINs had also established processes for capacity management, and some LHINs had also begun conducting various capacity planning initiatives. For example, two neighbouring LHINs and representatives from their health-service providers engaged a third-party firm to assess community needs and capacity and use that information to determine current and forecast gaps in service. The LHINs informed us that they expected to undertake more capacity planning initiatives by December 2017.

- *develop and implement action plans with timelines to address the service gaps identified.*
  Status: In the process of being implemented by December 2018.

Details

In our 2015 audit, we identified a LHIN that noted in its 2013/14 annual business plan that it did not know whether there were service gaps in the delivery of community health services in its region. At the time of this follow-up, the LHINs informed us that they were in the process of building community profiles for each of their sub-regions, which included identifying service needs, availability and gaps by December 2017, and implementing action plans with timelines to address the service gaps identified by December 2018.

Recommendation 12

To ensure that best practices are effectively identified and shared, Local Health Integration Networks should:

- *develop guidelines and training to evaluate whether projects result in best practices;*
  Status: In the process of being implemented by December 2017.

Details

In December 2016, the LHINs developed the Leading Practices Framework. This framework draws on several tools already in use in Canada and other countries and builds on work done by Health Quality Ontario to create a common tool for evaluating new practices for their appropriateness to be used across the province. The framework suggests bringing together successful practices from individual LHINs and conducting an assessment to determine which practices should be endorsed for use across other LHINs. The LHINs informed us that they expected to fully implement the framework by the end of 2017.

- *establish a protocol to use for sharing best practices.*
  Status: In the process of being implemented by December 2017.

Details

The Leading Practices Framework, developed in December 2016, establishes formal methods and protocols to share best practices. The LHINs informed us that there will be revisions made to address changes in the LHIN organizational structure resulting from the *Patients First Act, 2016* before implementing the framework by December 2017.

Recommendation 13

To reduce the variation in the experiences of patients, the Ministry of Health and Long-Term Care should clarify under what circumstances it, as opposed to the Local Health Integration Networks, is responsible for establishing common approaches to delivering health services.

Status: Fully implemented.

Details

In our 2015 audit, we found that while both the Ministry and the LHINs had shared responsibility in developing standardized responses to common issues and services in some areas, some LHINs were using inconsistent approaches for other health service areas because standardized approaches were lacking. At the time of this follow-up, the Ministry informed us that while its role is primarily to provide direction and priorities for the health-care sector, in some situations it may issue provincial standards for the delivery of health services. This has been clarified through changes to the *Local Health System Integration Act, 2006*, which now enables the Minister of Health and Long-Term Care to issue provincial standards for the provision of health services that are provided or arranged by LHINs or health-service providers where the Minister considers it to be in the public interest to do so.

Recommendation 14

To ensure that health services across Ontario are delivered as cost efficiently as possible, Local Health Integration Networks should identify further group-purchasing and back-office integration opportunities in the various health sectors, and implement these cost-saving practices.

Status: Little or no progress.

Details

In our 2015 audit, we found that the use of group purchasing and back-office integration (that is, integrating or consolidating the administrative and business operations of LHINs and/or health-service providers) differed across the four LHINs we visited.

In the case of group purchasing, the Ontario Government established the Healthcare Sector Supply Chain Strategy Expert Panel in April 2016 to recommend a province-wide supply chain strategy for health care, analyze the strategic procurement structures in place to understand their current capabilities and opportunities, and recommend a model for health-care providers to participate in with associated costing and savings, along with an implementation plan. In May 2017, the Expert Panel submitted a report to the government, which included 12 recommendations. These recommendations, if adopted, are intended to transform Ontario's health-care supply chain over the next three years, and include establishing an integrated organization that serves all publicly funded health-care organizations, and requiring all LHINs, publicly funded hospitals and home and community-funded service providers to fully participate in the integrated supply chain. At the time of the follow-up, the Ministry was reviewing the Expert Panel's recommendations.

In the case of back-office integration, at the time of this follow-up, the LHINs informed us that they continue to support and rely on health-service providers to implement back-office integration when cost savings, improved quality and/or increased capacity can be realized. We still believe that LHINs should have greater involvement in this area as part of their mandate to integrate the health system. Even though the *Patients First Act, 2016* allows for regulatory changes to allow Health Shared Services Ontario to provide shared services to both LHINs and other health-service providers, at the time

of our follow-up it was only mandated to provide shared services to LHINs.

Recommendation 15

To ensure integration initiatives improve local health systems and to help identify the most effective types of approaches to integration, Local Health Integration Networks should measure the impact that each integration initiative has on LHIN service levels and costs.

Status: In the process of being implemented by September 2017.

Details

In December 2016, the LHINs created the Framework for Assessing the Impact of Integration Activities. This framework directs LHINs to evaluate what positive and negative impacts an integration initiative had on the following:

- persons and populations;
- health-service providers; and
- system dynamics, such as demand and sustainability.

These evaluations can take the form of self-reported impacts from health-service providers or a formal program evaluation; the method of evaluation would vary depending on the integration initiative. At the time of this follow-up, the framework had been shared across the LHINs, and implementation was expected by September 2017. The LHINs informed us that they would inform health-service providers about the framework shortly after it is implemented.

Funding Process Needs Improvement to Better Meet Patient Needs

Recommendation 16

To ensure that Local Health Integration Networks (LHINs) appropriately facilitate areas of health care to address local needs, the Ministry of Health and Long-Term Care (the Ministry) should clarify with the LHINs what authority they have to reallocate funding among health-service providers, and inform them that they can negotiate the use of dedicated funding with the Ministry.

Status: Fully implemented.

Details

In the 2015–2018 Ministry-LHIN Accountability Agreement, the Ministry re-emphasized the LHINs' ability to reallocate unused dedicated funding to another service if prior approval from the Ministry is received.

Recommendation 17

To ensure health-service providers can properly plan to meet patient-care needs, the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, should finalize the annual funding each health-service provider will receive before the fiscal year begins or as early in the current fiscal year as possible.

Status: Fully implemented.

Details

Our 2015 audit found that the Ministry had given LHINs funding for specific initiatives late into the fiscal year, resulting in amounts having to be returned to the Ministry as a result of LHINs and health-service providers not having enough time to fully implement the initiatives. In the 2016/17 fiscal year, the Ministry improved the timing of funding notifications to the LHINs and informed us that it is continually working with LHINs to confirm new funding amounts as early as possible.

Recommendation 18

To ensure that the share of the Urgent Priorities Fund allocated to each Local Health Integration Network reflects current patient needs, the Ministry of Health and Long-Term Care should:

- *ensure the amount allocated to the Fund is appropriate considering overall funding increases over time;*

  Status: In the process of being implemented by March 2018.

Details

In our 2015 audit, we reported that the funds allocated to the Urgent Priorities Fund to cover all 14 LHINs had remained constant at $50 million since the Fund's inception, while funding to health-service providers had increased by 12% (inflation-adjusted) between 2008 and 2015. At the time of this follow-up, the Ministry was in the process of reviewing the Urgent Priorities Fund as a result of changes to the LHIN mandate in the *Patients First Act, 2016*. The Ministry informed us that this review, expected to be completed by March 2018, would include determining whether the amount allocated to the Fund is appropriate.

- *regularly revise the allocation on the basis of current population and/or other relevant information.*
  Status: In the process of being implemented by March 2018.

Details

In our 2015 audit, we noted that each LHIN's annual allocation from the Fund was based on the population information the Ministry had when the Fund was created in 2007, but that the populations within the LHINs had changed since then. At the time of this follow-up, the Ministry was in the process of reviewing the Fund as a result of changes to the LHIN mandate in the *Patients First Act, 2016*. The Ministry informed us that in this review it would consider whether to take current population and other relevant information into account in allocating Fund amounts among the LHINs.

Recommendation 19

To ensure health-service providers spend funding from the Urgent Priorities Fund only on patient services, as the Fund requires, Local Health Integration Networks should follow a consistent decision-making process and approve applications only on the basis of established criteria.

Status: Fully implemented.

Details

We noted in our 2015 audit that one of the four LHINs we visited used a different decision-making framework than the other three, which adopted a standard framework developed by the LHIN Collaborative. In the 2016/17 fiscal year, the Urgent Priorities Fund guidelines were changed from requiring that the Fund be used for direct-patient services to allowing the Fund to be used for any of the services defined in the *Local Health System Integration Act, 2006*. In May 2016, all LHIN CEOs reviewed and reapproved the standard framework. The LHINs indicated that each LHIN had ensured that its internal decision-making processes aligned to the standard framework.

LHIN Boundaries Need Revisiting

Recommendation 20

To ensure the division of the Local Health Integration Networks (LHINs) is conducive to effective planning and integrating of local health-care services, the Ministry of Health and Long-Term Care should review existing LHIN boundaries.

Status: Fully implemented.

Details

Our 2015 audit found that LHIN boundaries were formed in 2006 and had not been reviewed since. In September 2016, the Ministry required LHINs to submit recommendations for the creation of sub-regions within their boundaries. These sub-regions are expected to allow the LHINs to identify local community priorities and tailor initiatives to them. The Ministry endorsed the LHIN sub-region submissions in January 2017, and all LHINs were required to publicly post maps that identify their sub-regions, in accordance with the requirements outlined in the *Patients First Act, 2016*. At the time of this follow-up, all LHINs had complied and had posted maps of their sub-regions on their websites. While this process did not include a formal review of LHIN boundaries, the Ministry informed us that the development of sub-regions would assist with identifying potential changes to boundaries in the future.

Ministry of Health and Long-Term Care

Long-Term-Care Home Quality Inspection Program

Follow-Up on VFM Section 3.09, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3		2	1	
Recommendation 2	4	3	1		
Recommendation 3	2	2			
Recommendation 4	1	1			
Recommendation 5	2	1		1	
Recommendation 6	2		2		
Recommendation 7	1		1		
Recommendation 8	2	1	1		
Recommendation 9	3	2		1	
Recommendation 10	3		2	1	
Recommendation 11	1		1		
Recommendation 12	3		1	2	
Recommendation 13	3		1	2	
Total	**30**	**10**	**12**	**8**	**0**
%	**100**	**33**	**40**	**27**	**0**

Overall Conclusion

According to the information that the Ministry provided to us, as of July 27, 2017, 33% of the actions we recommended in our *2015 Annual Report* have been fully implemented. For example, since our last audit, the Ministry conducted a cost-benefit analysis on the frequency of comprehensive inspections, which led to the development of a shorter, risk-focused comprehensive inspection and a change in how often homes will receive a traditional, full comprehensive inspection. For all long-term-care

homes, the Program's new policy is to perform a full comprehensive inspection at every home at least once every three years. However, homes that are low-risk (that is, substantially compliant) may now receive a risk-focused comprehensive inspection in the remaining two of those three years. Medium- and high-risk homes must continue to receive a full comprehensive inspection each year.

The Ministry has made progress in implementing a further 40% of the recommended actions. For instance, the Ministry is referring more cases of repeat non-compliance to the Director appointed under the *Long-Term Care Homes Act, 2007* (Act) and has announced its intention to make legislative and regulatory changes to implement new enforcement measures, such as fines.

There has been little or no progress on the remaining 27% of actions. Fluctuations in the number of complaints and critical incidents requiring inspections continue to be an issue. As of April 2017, the backlog of complaints and critical incidents requiring inspections increased to about 3,370 from about 2,800 in March 2015.

The status of actions taken on each of our recommendations is described in the following sections.

Background

There are about 630 long-term-care homes in Ontario, providing accommodation and care to adults who are unable to live independently and/or who require round-the-clock nursing care in a secure setting. The homes provide care to approximately 76,300 residents (as of March 2015—77,600 residents), most of whom are over 65 years old.

The Ministry of Health and Long-Term Care (Ministry) funds, licenses and regulates Ontario's long-term-care homes. Homes can be either for-profit or not-for-profit. In the 2016/17 fiscal year, Ministry funding to long-term-care homes through the Province's Local Health Integration Networks totalled $3.7 billion (2014/15—$3.6 billion).

The Long-Term Care Homes Quality Inspection Program (Program) is designed to protect and safeguard residents' rights, safety and security, as well as ensure that long-term-care homes comply with legislation and regulations. Under the *Long-Term Care Homes Act, 2007* (Act), the Ministry may conduct inspections at any time without having to alert the homes beforehand. Inspectors who find a home that does not comply with the Act take formal enforcement action, including issuing a compliance order to take action and resolve the non-compliance by a prescribed deadline.

There are four types of inspections that check for compliance with the law:

- comprehensive inspections, that assess residents' satisfaction and the homes' compliance;
- complaint inspections, in response to complaints from residents, their families or the public;
- critical-incident inspections, following incidents such as fire, sudden death, missing residents, as well as reports of abuse, neglect, improper care or unlawful conduct; and
- follow-up inspections of homes issued with orders to comply with legislation.

Our 2015 audit found that, since 2013, the Ministry focused its attention and resources on completing comprehensive inspections of the 630 long-term-care homes by the end of 2014 and continuing to inspect all homes every year after that. However, the Program had to deal with a growing workload in other areas, including an increase of complaints and critical incidents at homes, and more follow-ups of non-compliance issues. As such, the Ministry needed to strengthen its oversight of the Program to address the significant variations in inspectors' workloads, the number of compliance orders issued, and inspection and reporting timeliness across the province.

Other significant observations from our *2015 Annual Report* include the following:

- While the Ministry made good on its commitment to do comprehensive inspections of all 630 homes (completed in January 2015), the backlog of inspections triggered by complaints and critical incidents more than doubled—from about 1,300 as of December 2013 to 2,800 as of March 2015. We found that 40% of high-risk complaints and critical incidents that should have triggered immediate inspections took longer than three days to act on. Over a quarter of these cases took between one and nine months for inspection. Sixty percent of our sample of medium-risk cases that should have been inspected within 30 days took an average of 62 days. Delays in complaint inspections and critical-incident inspections can place residents of long-term-care homes at risk.
- The Ministry did not prioritize comprehensive inspections based on the risk level of homes in terms of their compliance with legislation or regulations. For example, only a few homes that were considered high- or medium-risk had earlier comprehensive inspections from June to December 2013.
- Homes were given inconsistent timelines to rectify issues identified by inspectors. The Ministry did not provide clear guidance on how long homes should be given to comply with orders. For example, in 2014, inspectors in one region gave homes an average of 34 days to comply with orders relating to key risk areas (such as carrying out a resident's plan of care, protecting residents from abuse and neglect, and providing a safe, secure and clean home), while inspectors in another region gave homes an average of 77 days to comply with similar orders.
- The Ministry did not have an effective process for monitoring compliance orders that required follow-up. About 380 compliance orders, or two-thirds of those due to be completed in 2014, had not been followed up within the Ministry's informal 30-day target.
- The Ministry had not taken sufficient action against long-term-care homes that had repeatedly failed to comply with orders to fix deficiencies. We noted that homes in one region did not comply with almost 40% of the compliance orders issued by the Ministry in 2014, while homes in another region did not comply with about 17% of orders. The Ministry did not know why the homes repeatedly failed to correct certain deficiencies.
- Ontario does not legislate a minimum front-line staff-to-resident ratio at long-term-care homes. Home administrators told us that insufficient staffing and training were the main reasons they failed to achieve full compliance.
- As of March 2013, approximately 200 long-term-care homes (accommodating over 20,000 residents) did not have automatic sprinkler systems. The Ministry did not have more recent information on whether any of these homes had been retrofitted with automatic sprinkler systems. The current law does not require this to be done until 2025.

In our 2015 audit, we recommended that the Ministry identify the reasons for the significant fluctuation in the number of complaints and critical incidents; collect and analyze the information needed to develop a detailed resource plan and distribute resources accordingly; track, monitor and prioritize complaints, critical incidents and orders that are overdue for inspection; prioritize comprehensive inspections based on long-term-care homes' compliance history and other risk factors; establish a clear policy for inspectors to use in determining an appropriate time frame for homes to comply with orders addressing similar risk; strengthen its enforcement processes to promptly address homes with repeated non-compliance issues; and establish a formal protocol with the Office of the Fire Marshal and Emergency Management and municipal fire departments to regularly share information on homes' non-compliance with fire safety regulations.

We received commitment from the Ministry that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and July 27, 2017, and obtained written representation from the Ministry of Health and Long-Term Care that, effective September 1, 2017, it had provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

The Ministry Is Slow in Addressing Complaints and Critical Incidents at Long-Term-Care Homes

Recommendation 1

To ensure that the Program significantly improves the timeliness of inspecting complaints and critical incidents, the Ministry of Health and Long-Term Care should:

- *identify the reasons for the significant fluctuation in the number of complaints and critical incidents as well as cases requiring inspection;*
  Status: Little or no progress.

Details

Our 2015 audit found that the backlog of complaints and critical incidents had more than doubled—from about 1,300 as of December 2013 to about 2,800 as of March 2015. The increased backlog is mainly due to a significant increase in complaints and critical incidents requiring inspections—from approximately 3,640 in 2013 to 5,440 in 2014.

Since our audit, fluctuations in the number of complaints and critical incidents requiring inspections continue to be an issue, and the Ministry has been unable to determine the reasons for these significant fluctuations.

As of April 2017, the backlog of complaints and critical incidents requiring inspections has increased by 20% to about 3,370 (about 730 complaints and 2,640 critical incidents)—from about 2,800 (about 960 complaints and 1,840 critical incidents) in March 2015. While the Ministry was able to clear the backlog from 2015, they were not able to keep up with an increase (37%) in the number of complaints and critical incidents requiring inspections in 2016—from approximately 5,440 in 2014 to 7,475 in 2016.

- *collect and analyze all the information needed (including total projected workload, the number of inspectors available compared to demand, inspection duration and timeliness, regional circumstances, and other risk factors) to develop a detailed resource plan and distribute resources accordingly;*
  Status: In process of being implemented by January 2018.

Details

In our 2015 audit, we found that the Ministry had not undergone a thorough analysis of the projected and actual workload in each region before deciding to hire an additional 100 inspectors in July 2013. Instead, the decision was based solely on the resources the Ministry estimated would be needed to meet the Minister's commitment to conduct comprehensive inspections of every home by the end of 2014. As such, it did not take into account the Program's other responsibilities, such as conducting complaint, critical-incident and follow-up inspections as well as reporting inspection results.

Following our audit, the Ministry undertook an analysis of the Program's current organizational structure, including staffing and management complements, inspector workload, intake and administrative functions. In November 2015, the Ministry hired a consultant to perform a review of the Program's organizational structure and develop

recommendations and an implementation strategy to support the efficient use of inspector resources. In February 2016, the Ministry received the consultant's report, which included an analysis of key strengths, challenges, and detailed recommendations on how to address some of the gaps in the Program. The Ministry is currently in the process of implementing a number of the recommendations made in the report, such as establishing a centralized education model, creating a dedicated quality-assurance and program-development function, increasing inspector resources in some areas and redeploying inspector resources in a logical manner. The Ministry expects to implement a majority of the recommendations by October 2017.

- *regularly monitor and evaluate the resource plan against actual performance to determine if further action is required.*
  Status: In process of being implemented by January 2018.

Details

As mentioned, the Ministry is in the process of implementing a number of the recommendations identified as part of its organizational review. It will be the future responsibility of the new quality assurance and Program development function to create additional benchmarking and reporting tools to monitor whether the resource plan is working as intended.

The Ministry has also developed a number of new management reports to assist in evaluating the performance of its regional offices and inspectors. For example, the Ministry has created reports to analyze inspector workload, timeliness of inspections, and number of outstanding intakes requiring inspection. These reports will help the Ministry to determine whether further action is required with respect to its resource plan. While an improvement, these management reports are still manually created, which is very time-consuming and, as a result, are not readily accessible to management in regional offices on a regular basis. The Ministry expects to complete automation of these management reports by October 2017, and evaluate the resource plan when it is fully implemented in January 2018.

Tracking of Complaints and Critical Incidents Is Inconsistent and Inadequate

Recommendation 2

To better track, prioritize and monitor the handling of complaints and critical incidents, the Ministry of Health and Long-Term Care should:

- *perform periodic secondary reviews of complaints and critical incidents received by the Program's centralized intake unit to ensure that reasons for not conducting an inspection are justified and documented;*
  Status: Fully implemented.

Details

During our 2015 audit, we found that the Program's centralized intake unit determined that only about one-third of the approximately 16,240 complaints and critical incidents it was informed of in 2014 required an inspection. We reviewed a sample of the remaining two-thirds of complaints and critical incident cases that had been closed without inspection and found that 65% of them had insufficient documentation to show why an inspection was not required.

Following our audit, the Program updated its complaint and critical incident policies to require its centralized intake unit to perform reviews on 5% of complaint and critical incident cases closed without an inspection to confirm that the rationale was both justified and documented.

The updated policies also require the centralized intake unit to perform monthly reviews of complaint and critical incident cases that they forward for inquiry or inspection to regional offices. In April 2017, the staff in the centralized intake unit began performing and documenting these audits using standardized checklists. As of May 2017, the

centralized intake unit performed about 100 audits of which five related to complaints or critical incidents requiring inspections that inspectors closed without an inspection. Reviewers are consolidating and summarizing the results and trends identified in these audits in a log maintained by the centralized intake unit.

- *track and monitor complaints and critical incidents that are overdue for inspections;*
  Status: Fully implemented.

Details

We reported in our 2015 audit that the Ministry did not know how many inspections were overdue, or for how long, because it did not have an effective system in place to track complaints and critical incidents that require inspections.

Since our audit, the Ministry has developed a monthly dashboard that the Program's centralized intake unit uses to monitor the number of outstanding complaints and critical incident cases that require inspections. In addition, the Ministry updated its inspection software to allow inspectors to identify outstanding complaints and critical incident inspections. The Ministry has also developed a management report that allows it to review all outstanding complaints and critical incidents requiring inspection and compare the list against established targets. Both provincial and local teams can use this report to determine the timeliness of complaint and critical incident inspections. The Ministry is working on automating this report, as it is currently a time-consuming manual process, by October 2017.

- *clarify expectations on how to prioritize and when to inspect complaints and critical incidents to ensure consistency throughout the province;*
  Status: Fully implemented.

Details

Our 2015 audit also found wide variations in inspection timelines across different regions in the province. For example, one region took, on average, 36 days to conduct medium-risk complaint and critical-incident inspections, while another took 86 days, far exceeding the Ministry's 30-day target for medium-risk inspections.

Since our audit, the Ministry has updated its complaint and critical incident policies to establish formal targets on how to prioritize and when to inspect complaints and critical incidents, as follows:

- High-risk complaints and critical incidents, which result in immediate jeopardy or risk to the patient, are still required to have an immediate inspection.
- Medium-risk complaints and critical incidents are assessed on how much harm or risk there is to the patient. If assessed as resulting in significant actual harm or risk to the patient, the complaint or critical incident must be inspected within 30 business days. Alternatively, if the actual harm or risk to the patient is more than minimal, but below significant, the complaint and critical incident must be inspected within 60 business days.
- Low-risk complaints and critical incidents, which pose minimal harm or risk to the patient, must now receive an inquiry within 90 business days—an improvement over the Ministry's previous informal target of 120 business days.

The Ministry communicated these changes to its inspectors by providing an education session in December 2016 that almost all of its inspectors and managers attended.

- *inform complainants and the family members of inspection results or why an inspection was not conducted, and document the action taken.*
  Status: In process of being implemented by December 2017.

Details

In our 2015 report, we found that the Ministry did not always contact residents involved in a complaint or their family members to ask if they were satisfied that any problems or concerns were

resolved appropriately. Despite the Ministry's policy that requires inspectors to report back to complainants on the outcomes of their inspections, we found no documentation in the Ministry's tracking system to show that this had been done for over 20% of the files we reviewed.

The Ministry updated its policies and procedures to reflect how the Program will update complainants on the status of their complaint at specific points in the inspection. For example, inspectors must now contact complainants within two business days after completing an inquiry or inspection. To ensure that inspectors are adhering to these requirements, the Ministry has developed new audit processes and checklists to assist reviewers.

From April 2017 to May 2017, inspectors in the centralized intake unit performed about 100 audits and, in almost all cases where the inspector performed an inquiry, they documented their discussions with the complainant. However, the inspectors at regional offices are not performing audits of complaint inspections to ensure that inspectors are informing complainants; they intend to start performing these audits in December 2017.

Comprehensive Inspections Are Not Prioritized by Risk

Recommendation 3

To put the safety of residents first by focusing on high-risk areas, the Ministry of Health and Long-Term Care should:

- *prioritize comprehensive inspections based on long-term-care homes' complaints and critical incidents, compliance history and other risk factors; and*
- *consolidate past inspection results and conduct a cost-benefit analysis to determine the frequency in which comprehensive inspections should take place in the future.*

Status: Fully implemented.

Details

Our 2015 audit noted that the Ministry needed to better prioritize comprehensive inspections, allocate resources more efficiently and assess the frequency of comprehensive inspections based on risk. This was required because of the increase in complaints and critical incidents requiring inspections and the extensive resources that are required to complete a comprehensive inspection.

We found that very few medium- and high-risk homes had been inspected from June to December 2013; instead, almost all comprehensive inspections of high-risk homes were performed relatively evenly throughout 2014. If the Ministry prioritized the inspections based on risk, issues at homes that were later identified by the Ministry could have been prevented or rectified by the homes sooner.

In May 2016, the Ministry hired a consultant to analyze and review data collected from comprehensive inspections to identify options to develop a shorter, risk-focused alternative to the full comprehensive inspection. The results of the consultation produced a new approach whereby homes that are low-risk may receive a shorter, risk-focused comprehensive inspection.

Compared to a full comprehensive inspection, the risk-focused comprehensive inspection interviews and examines a smaller number of residents, has one less mandatory inspection protocol, and only nine inspection protocols out of the full 21 inspection protocols can be triggered. As a result, the risk-focused comprehensive inspection is shorter in duration, lasting about three to five days, and requires fewer inspectors (for example, two inspectors instead of three to four) than a full comprehensive inspection.

In August 2016, the Ministry began performing risk-focused comprehensive inspections in addition to full comprehensive inspections. According to its policy, the Ministry's target is to perform a maximum of two risk-focused comprehensive inspections every three years for low-risk homes. Full comprehensive inspections are still required for all homes at least once every three years. It is still

the Ministry's intention to perform either a full or a risk-focused comprehensive inspection at all long-term-care homes every year.

As of January 2017, the Ministry classified almost 90% of long-term-care homes as low-risk and eligible to receive its new, shorter risk-focused inspections. Medium- to high-risk homes will continue to receive a full comprehensive inspection every year.

The Ministry Needs to Pay More Attention to Fire Safety at Long-Term-Care Homes

Recommendation 4

To mitigate the risk of fire at long-term-care homes, the Ministry of Health and Long-Term Care should work with the Office of the Fire Marshal and Emergency Management and municipal fire departments to establish a formal protocol to regularly share information with the Ministry on homes' non-compliance with fire safety regulations, focusing on homes that do not yet have automatic sprinklers installed.

Status: Fully implemented.

Details

In our 2015 audit, we noted that 30% of long-term-care homes did not have automatic sprinklers installed as of March 2014. Furthermore, by the end of our audit work, the Ministry still had no information on whether these 200 homes (representing over 20,000 residents) were in compliance with the Fire Core requirements aimed to reduce risk in dwellings with no automatic sprinkler systems. Municipal fire departments are responsible for attending fire drills and conducting fire inspections at long-term-care homes, but there is no formal protocol to share inspection results with the Ministry on a regular basis.

In May 2016, the Ministry entered into a memorandum of understanding with the Office of the Fire Marshal and Emergency Management (Office) to establish a formal protocol of exchanging information relating to the fire safety of long-term-care homes. According to the memorandum of understanding, the Office is responsible for notifying the Ministry of any orders issued to close a long-term-care home resulting from a failure to comply with fire safety legislation. In addition, the Office will advise municipal fire departments to contact the Ministry regarding any long-term-care home that is chronically or wilfully non-compliant with the fire code. To date, there have been three instances where the Ministry and the Office shared information to facilitate their respective investigations.

The Ministry was unable to provide us with an updated number of long-term-care homes that do not have automatic sprinklers installed. However, the Ministry has shared its list of the 200 homes that did not have automatic fire sprinklers with the Office and municipal fire departments to help better carry out its mandate.

Long-Term-Care Homes Are Given Inconsistent Deadlines to Rectify Issues

Recommendation 5

To ensure residents across the province are equally protected by the Long-Term Care Homes Act, 2007, *the Ministry of Health and Long-Term Care should:*

- *establish a clear policy and guidelines for inspectors to use in determining an appropriate time frame for homes to comply with orders addressing similar risk and non-compliance areas;*

  Status: Fully implemented.

Details

In our 2015 audit, we reported that the Ministry did not provide clear guidance on how much time long-term-care homes should be given to comply with orders. For example, in 2014, inspectors in one region gave homes an average of 34 days to comply with orders relating to key risk areas (such as carrying out a resident's plan of care, protecting residents from abuse and neglect, and providing a

safe, secure, and clean home), while inspectors in another region gave homes an average of 77 days to comply with similar orders.

Since our audit, the Ministry updated its policies and procedures to set more consistent compliance due dates for orders relating to similar risk and non-compliance areas, with a specific focus on orders that pose a greater risk to residents. Inspectors are now required to flag whether orders are high-risk in their system. An order is high-risk if the non-compliance poses significant harm or risk to a resident, is a recurring issue, or is associated with a director referral. All high-risk orders must be followed up within 30 days.

In addition, the policies now set mandatory compliance order due dates for specific high-risk areas. For example, orders relating to abuse, neglect, or failure to provide a safe and secure home must be rectified within seven days.

- *periodically review whether the policy and guidelines are being followed consistently by regional offices.*
  Status: Little or no progress.

Details

Our audit found that the Ministry had not tracked and compared information between regions and could not provide reasons for variations in due dates for orders of similar risk and/or area of non-compliance.

At the time of our follow-up, the Ministry informed us that it is currently not performing audits to ensure regional offices are complying with its updated policies and guidelines relating to compliance order due dates. The Ministry is in the process of recruiting additional resources to lead its quality assurance function, which will be responsible for performing periodic audits to ensure compliance with its policies and guidelines. As a result, the Ministry could not confirm whether there are still variations between different regions with respect to compliance order due dates.

The Ministry's Actions Are Not Sufficient to Deter Homes from Repeating Non-compliance

Recommendation 6

To ensure that long-term-care homes are not repeatedly in non-compliance with the Long-Term Care Homes Act, 2007, *the Ministry of Health and Long-Term Care should:*

- *strengthen its enforcement processes to promptly address homes with repeated non-compliance issues including when to escalate homes for further actions and the evaluation of the use of other enforcement measures (e.g., fines penalty);*
  Status: In process of being implemented by June 2018.

Details

In our 2015 audit, we noted that, in 2014, homes in one region did not comply with almost 40% of the compliance orders issued by the Ministry, while homes in another region did not comply with about 17% of orders. The Ministry did not know the reasons why these homes repeatedly failed to correct certain deficiencies. In addition, we found that the Ministry was taking too long to escalate cases of recurrent non-compliant homes to the Director for further action. Furthermore, the Ministry seldom used stronger enforcement actions that it had at its disposal, such as ordering funding to be returned or withheld, ordering a home's management to be replaced, or revoking a home's licence. We noted that inspectors for nursing homes in Alberta, British Columbia, the United States and United Kingdom, for example, could fine homes in cases of serious non-compliance.

Following our audit, the Ministry began escalating cases of non-compliance to the Director more frequently. In 2015 and 2016, the number of referrals made to the Director increased to 35 and 86 respectively—a significant increase from none in 2013 and one in 2014. The large increase in referrals to the Director in 2016 was primarily due to a

change in the Ministry's Director Referral policy, where compliance orders are referred to the Director if a long-term-care home fails to comply with an order a second time.

In 2016, the Ministry's analysis showed that, after intensive meetings between the Director and home operators, homes complied with over 50% of the compliance orders at the next follow-up inspection. As a result, the Ministry appears to be having some success with this initiative. Of the remaining compliance orders, long-term-care homes failed to comply with 20% of them, and about 30% either required a follow-up inspection or were not yet due.

In January 2017, the Ministry announced its intention to propose legislative and regulatory amendments to the existing *Long-Term Care Homes Act* to introduce new enforcement measures. These measures include financial penalties, new provincial offences, the authority to suspend an operator's licence and order interim management, a provision to direct homes to use a new skin and wound care protocol, and other improvements to promote transparency. The Ministry is currently working on the proposal and intends to table it by fall 2017 and fully implement the measures by June 2018.

- *help homes achieve compliance with the Act by providing additional information and support on how to rectify issues, and by sharing best practices between long-term-care homes.*
  Status: In process of being implemented by November 2017.

Details

Almost all of the homes we contacted during our 2015 audit, including the ones that we surveyed, advised us that that they would benefit from an adviser or an advisory function within the Ministry for clarification and guidance on the Act and other issues. However, the Ministry had concerns with providing this advisory function because it believed that there would be an inherent conflict of interest if inspectors had to verify whether their own advice was followed.

Since our audit, the Ministry has begun to support long-term-care homes by regularly publishing a memo online to the sector. This memo includes information updates and important reminders to home operators. For example, a memo published in January 2017 provided clarification on plans of care and verifying staff credentials in response to a report from the Ontario Coroner's Geriatric and Long-Term Care Review Committee.

In addition, the Ministry met with Health Quality Ontario and other key stakeholders in the long-term-care home sector to explore partnerships and identify options for required supports to build long-term-care home capacity. These discussions are still in the preliminary stages and, as a result, there has been no decision on what additional supports to provide or who will be providing these supports. The Ministry expects to complete a formalized plan in November 2017.

Recommendation 7

To ensure the long-term-care homes are held accountable to their performance, the Ministry of Health and Long-Term Care should review the role and responsibility of the Local Health Integration Networks with regards to the use of inspection results in monitoring the performance of long-term-care homes.
Status: In process of being implemented by October 2017.

Details

In our 2015 audit, we reported that while inspection results on homes with longstanding problems were provided to Local Health Integration Networks (LHINs), the LHINs did not use these results to monitor the performance of homes through their service accountability agreements. Instead, LHINs relied on the Director to take actions whenever the Director considered it necessary to do so.

Following our audit, the LHINs' roles and responsibilities with regard to non-compliance have increased to focus on enhanced enforcement. The Ministry regularly invites representatives from the LHINs to attend meetings with long-term-care

home licensees when a compliance order has been referred to the Director. The LHINs' representatives have consistently attended these meetings. For example, based on discussions held between a LHIN and the Director, the LHIN chose to withhold additional funding from one home due to repeated non-compliance. LHINs are also routinely copied on all letters from the Director to operators, informing them of the results of the referrals so that they are aware and continue to be informed about performance concerns and improvements.

LHINs are now communicating any non-compliance concerns they discover in a long-term-care home to the Ministry. The Ministry has yet to develop a formal cross-reporting process with the LHINs and additional indicators to inform long-term-care home compliance, but expects to do so by October 2017.

Situations Placing Residents at Risk Are Not Followed Up in a Timely Manner or Not Followed Up At All

Recommendation 8

To better ensure that residents at long-term-care homes are protected from harm, the Ministry of Health and Long-Term Care should:

- *establish a formal target for conducting follow-up inspections on orders, and prioritize those inspections based on risk;*
  Status: Fully implemented.

Details

In our 2015 audit, we found that the Ministry had no formal policy on when follow-up inspections must be conducted, though it had an informal target of 30 days after the order's due date. We found that there was a great variance in how regional offices prioritized their follow-up inspections, with some regions prioritizing according to risk level and other regions prioritizing according to inspection due date. As a result, the highest-risk areas were not always followed up with inspections as promptly as they should be.

Since our audit, the Ministry has updated its policies and procedures to include a formal target for conducting follow-up inspections on compliance orders. According to the Ministry's policy, high-risk orders must be followed up on within 30 business days after the due date of the order has passed. All other orders must be followed up on within 60 business days after the due date of the order has passed.

- *regularly track and monitor follow-up inspections to ensure they are conducted within the targeted time frame.*
  Status: In process of being implemented by October 2017.

Details

Our 2015 audit found that not all regions had reliable processes in place to track and monitor compliance order due dates, so inspectors were not always aware when the orders were overdue. Specifically, two-thirds (about 380) of compliance orders due in 2014 had not been followed up within the Ministry's informal 30-day target. On average, it took the Ministry two-and-a-half months after an order's due date to perform a follow-up inspection.

As discussed, the Ministry has since developed a new management report to track and monitor whether inspectors conducted follow-up inspections within the targeted time frame. Because the Ministry has to manually extract and manipulate data to create the management report, it is not readily available to each regional office on a regular basis. In addition, because the management report does not distinguish between high-risk and other orders, the Ministry could not confirm whether high-risk orders were being followed up on a timely basis and within their targeted time frame. Automation of the management report and improvements to allow it to segregate high-risk orders will be completed by October 2017.

In 2016, there were approximately 1,000 compliance orders due for a follow-up inspection. While

almost three-quarters of those orders received a follow-up inspection, only 35 of these inspections were completed within the targeted time frame. The Ministry took, on average, about two months after an order's due date to perform a follow-up inspection.

Inspection Results Are Not Reported in a Timely Manner or Not Reported At All

Recommendation 9

To ensure that inspection results are communicated on a timely basis, the Ministry of Health and Long-Term Care should:

- *establish formal targets for reporting inspection results to both home licensees and the public;*
  Status: Fully implemented.

Details

Our audit identified significant delays in reporting inspection results to both long-term-care homes and the public, with some inspection results—dating back as far as 2011—not yet made public. The Ministry had an informal target to deliver the inspection report to the operator of the home within two weeks of the inspection, and to publish an edited version (without residents' personal and health information) of the report on its website within two months.

Since our audit, the Ministry has updated its policies and procedures to include a formal target for reporting inspection results to both home operators and the public. The target to deliver an inspection report to the operator is 20 business days after the completion of the inspection, and the target to post the report on its website is 30 business days after the completion of the inspection.

- *monitor and review actual reporting timelines against pre-established targets, and take corrective action when such targets are not met;*
  Status: Little or no progress.

Details

In our 2015 audit, we also found that the Ministry did not monitor its reporting timelines to confirm whether it was meeting its informal targets.

Following our audit, regional offices began collecting the necessary data to monitor their actual reporting timelines. Only two regional offices actually used the data to monitor whether they were meeting the pre-established targets for providing inspection reports to home operators and publishing them on the Ministry's website. However, neither regional office met its targets a majority of the time. The Ministry is planning to incorporate this data and use it as one of its key performance indicators by October 2017.

- *implement procedures to ensure that all inspection reports are posted on its public website.*
  Status: Fully implemented.

Details

Our 2015 audit found that reports for about 8% of the inspections in our sample, some dated as far back as 2011, were not available on the Ministry website. The Ministry confirmed that a total of 905 inspection reports had not been uploaded to its website—about 10% of all the inspections that took place from April 2011 to December 2014. The Ministry cited administrative errors (such as electronic files that failed to transfer or that had been misplaced) as the reason for the missing reports.

Since our audit, the Ministry has developed a new quality assurance process to ensure that it posts all completed inspection reports on its public website. Administrative assistants in each regional office use a tracking spreadsheet that records all inspection reports completed by inspectors. Completed reports are uploaded to the website on a weekly basis, and administrative assistants in each regional office are required to verify that all inspection reports in the spreadsheet are posted onto the Ministry's website. The administrative assistants are then required to enter the date of verification into the spreadsheet as proof of their review.

Inspection Reports Need to Provide More Useful Information on Long-Term-Care Homes

Recommendation 10

To provide the public with better information for decision-making on long-term-care homes, the Ministry of Health and Long-Term Care should:

- *summarize and report the number of instances identified of non-compliance, for individual homes and on a provincial basis, and when they were rectified;*
  Status: In process of being implemented by December 2018.

Details

In our 2015 audit, we reported that while it was useful for the public to know what issues were found at a home during an inspection, it would be more useful if the Ministry also reported and summarized whether instances of non-compliance were later rectified, or how a home was performing compared to other homes in the province.

As of our follow-up, the Ministry has updated its main website to include a search tool that can display long-term-care homes by name, municipality and/or by Community Care Access Centre (CCAC)/LHIN. The website also includes current inspection data for the last 12-month period for each home, updated on a quarterly basis, including the last time the home received a comprehensive inspection, the number of non-compliances and orders it was issued, and how the home compares against the provincial average. The website also includes the number of times a home received a complaint, critical incident or follow-up inspection.

Despite these improvements, the Ministry's website still does not show how many non-compliances and compliance orders are outstanding, and whether or not (and when) they were rectified. In addition, the Ministry currently has a separate website for publishing inspection reports online, but it does not provide the same summary-level compliance information as the Ministry's main website.

The Ministry informed us that there is additional work underway to redesign the Ministry's website and expects it to be completed by December 2018.

- *consolidate its inspection results together with quality-of-care information from other entities, such as Health Quality Ontario and the Community Care Access Centres, in order to provide a broader perspective on each home's performance, including the use of antipsychotic drugs, wait lists, staffing ratios and other quality-of-care indicators;*
  Status: Little or no progress.

Details

Our audit found that apart from the Ministry, other organizations, such as Health Quality Ontario, the Canadian Institute for Health Information and Community Care Access Centres report on the quality of long-term-care homes. Their reports included indicators such as wait times, direct-care hours per resident per day, and the use of physical restraints and antipsychotic drugs. The Ministry had made no attempt to consolidate and publish its inspection results with other useful information available in these reports. This information would help provide a complete picture of how well a home is performing compared to other homes or compared to the provincial average.

Since our audit, the Ministry has made little progress on consolidating its inspection results with other sources of information. While the Ministry's website does provide limited summary-level compliance information for each long-term-care home, it does not provide any other information that would help users evaluate homes' performance in other areas. As a result, it is still not possible to compare homes against each other without consolidating data and information from various sources such as the Ministry's inspection reporting website, the Canadian Institute for Health information, Health Quality Ontario and others.

As part of the work under way to improve the Ministry's website, the Program is currently looking into how best to incorporate data sets from

Health Quality Ontario, which will provide users with better information on the quality of long-term-care homes.

- *consult with other stakeholders and consider best practices from other jurisdictions to develop a reporting strategy that allows the public to compare and rank homes' level of compliance and other quality-of-care indicators against the provincial average.*

  Status: In process of being implemented by November 2017.

Details

In our *2015 Annual Report*, we recommended that Ontario look to other jurisdictions for best practices in the use of reporting indicators to help the public determine how well a particular home is performing relative to others. In the United Kingdom, for example, inspection results were summarized into ratings for each home, from inadequate to outstanding, in five general categories: treating people with respect; providing care that meets people's needs; safety; staffing; and quality of management. In the United States, the federal government used a five-star rating system that combined its health inspection reporting on nursing homes with staffing ratios and other quality measures. The rating system allowed people to compare information about nursing homes across the country.

The Ministry has since conducted an inter-jurisdictional scan of best practices in reporting information on long-term-care homes, and has developed several options to improve the website in line with the recommendations from our audit. In addition, the Ministry is consulting with key stakeholders over the summer of 2017 to get input into the types of information and method of presentation that would be helpful to the public. The Ministry expects to develop a reporting strategy by November 2017.

Allocation of Inspectors Needs Further Analysis

Recommendation 11

To ensure residents' concerns are addressed equitably across the province, the Ministry of Health and Long-Term Care should periodically review and assess inspectors' workload and efficiency among the regions, and take necessary actions to address any unexpected variations.

Status: In process of being implemented by November 2017.

Details

In our 2015 audit, we found that the Ministry had not regularly collected the necessary information to assess whether its current allocation of inspectors was appropriate, such as determined by either workload or efficiency of inspectors across the province.

In November 2015, the Ministry hired a consultant to perform a review of the Program's organizational structure including staff and management complements, inspector workload, intake and administrative functions. The consultant's report, received in February 2016, included a summary of the Program's strengths, key challenges and recommendations. It noted that, when fully staffed and trained, the number of inspectors seemed to be appropriate to achieve the Program's desired outcomes. However, it also found that the Program did not have enough managers, had too many dispersed functions, and that policies, procedures and processes were being applied inconsistently across regions. Some of the key recommendations in the report included centralizing a number of functions, increasing the number of managers and supervisors, and hiring additional staff for the Program's central intake unit. The report also recommended balancing the number of homes per regional office through a possible realignment of geographic boundaries or by increasing the number of regional offices. The Ministry is working on implementing these recommendations by October 2017.

As stated earlier in this follow-up report, the Ministry also developed a number of management

reports to help regional offices evaluate their workload and make changes accordingly, but these *reports lack automation and therefore are not read* ily accessible. A project is currently under way to implement new software that will assist regional offices in scheduling inspections, managing available inspector resources and sharing information such as policies, guidelines and best practices. The Ministry expects to implement these improvements by November 2017.

The Ministry Does Not Effectively Ensure the Quality of Inspectors' Work

Recommendation 12

To ensure the high quality and consistency of inspectors' work across the province, the Ministry of Health and Long-Term Care should:

- *revisit the quality assurance procedures, including peer reviews and the use of post-inspection audit checklists, that were put on hold and evaluate their relevance and usefulness;*
  Status: In process of being implemented by January 2018.

Details

During our audit, we found that the Ministry developed quality assurance procedures in January 2013 (including peer reviews and post-inspection audit checklists) to determine whether policies and procedures had been followed during inspections and to identify training needs. However, these measures were not implemented as the Ministry was focused on meeting the Minister's commitment to complete comprehensive inspections of every long-term-care home in the province by the end of 2014.

Following our audit, the Ministry revisited its quality assurance procedures as part of its review of the Program's organizational structure. As discussed earlier in this report, the Ministry received advice from a consultant to implement a new quality assurance function with dedicated staff. The Ministry has also updated its policies to include *periodic audits of inspectors' compliance to Program* policies and has developed post-inspection audit checklists to assist reviewers. While the Ministry has approved a number of new positions to staff its quality assurance function and post-inspection audit-related activities, it had not yet filled these positions at the time of our follow-up. As a result, with the exception of the centralized intake unit, regional offices are not conducting post-inspection audits of inspectors' work. The Ministry expects the quality assurance function to be operational by January 2018.

- *perform management reviews of inspectors' work on a regular basis and document the results;*
  Status: Little or no progress.

Details

Our 2015 audit found that although the Ministry had policies in place for regional managers and/or inspector team leads to review and approve inspection reports before they were finalized, it did not track whether these reviews were actually done.

At the time of our follow-up, with the exception of the centralized intake unit, the Ministry did not perform post-inspection audits of inspectors' work and did not document results at its regional offices on a regular basis. The Ministry is currently in the process of hiring additional staff to perform these post-inspection audits.

- *consolidate and evaluate results from quality reviews and use them for training purposes.*
  Status: Little or no progress.

Details

The Ministry has made little to no progress in consolidating and evaluating its results from quality assurance reviews. As discussed earlier in this follow-up report, the Ministry does not currently perform and document post-inspection audits for the majority of its policies and procedures, but plans to

do so after hiring more staff. The new quality assurance function will be responsible for consolidating and evaluating results of quality reviews, which will guide the development of inspector training. The Ministry also plans to implement a centralized education model, where each regional office will assign an education lead that will be responsible for providing training and other support functions to inspectors. Education leads will assess the consistency of inspectors' work with respect to complying with Program policies and procedures.

The Ministry Is Not Measuring Program Performance

Recommendation 13

To ensure the mandate of the Long-Term Care Homes Quality Inspection Program is met and its performance is transparent to the public, the Ministry of Health and Long-Term Care should:

- *identify key performance indicators and establish reasonable targets for each and to periodically review all targets to ensure they are appropriate;*
  Status: In process of being implemented by April 2018.

Details

When we completed our 2015 audit work, the Ministry was still in the process of determining what information could and should be collected to monitor and track performance. The Ministry was also determining what targets should be established in areas such as inspector workload, timeliness of inspections, inspection reports and follow-ups on compliance orders.

Since our audit, the Ministry's established formal targets and management reports monitor areas such as the timeliness of inspections, outstanding complaints, critical incidents and compliance orders, and inspector workload. For example, as discussed earlier in this report, there are now established targets for inspecting complaints and critical incidents, following-up on compliance orders and providing inspection reports to operators of homes and the public. The Ministry has developed management reports for all of these, with the exception of reporting inspection results. Using these management reports, the Ministry has identified a number of key performance indicators that it will report in its Program-level balanced scorecard. The Ministry is currently in the process of formalizing its Program-level balanced scorecard and expects to complete it in April 2018.

- *monitor and evaluate actual results against all targets established and take corrective action when any targets are not met;*
  Status: Little or no progress.

Details

A recurring theme in our 2015 audit had been that the Ministry had no clearly defined and expected outcomes or targets against which it could assess how the Long-Term Care Homes Quality Inspection Program is performing. Without established benchmarks, the Ministry had no way of assessing whether regional variations in areas such as timelines for completing inspections, following up on compliance orders and publicly reporting inspection results, indicated that some are operating more or less efficiently than others.

Since our audit, although the Ministry has established targets in its policies, it does not regularly monitor and evaluate actual results and take corrective action when the targets are not met. The integration and automation of the Ministry's management reports to monitor established targets and key performance indicators into its information systems is a large focus for the Ministry, which it plans to complete in October 2017.

- *regularly publish actual results against targets.*
  Status: Little or no progress.

Details

At the time of our 2015 audit, the Ministry reported publicly on only one performance measure: the

number of comprehensive inspections completed throughout the year. The number of complaints or critical incidents that were inspected within the expected time frame was not publicly reported.

As of our follow-up, the Ministry does not report on additional performance measures. The Ministry is currently developing a Program-level balanced scorecard with a number of key performance indicators, though this project is at a standstill until the Ministry staffs its new quality assurance function that will be responsible for moving this project forward. The Ministry has not decided if it will publish its key performance indicators publicly as part of its Program-level balanced scorecard. It expects to complete work on the Program-level balanced scorecard in April 2018.

Chapter 1
Section
1.10

Management of Contaminated Sites

Follow-Up on VFM Section 3.10, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2	2			
Recommendation 2	2	1		1	
Recommendation 3	1	1			
Recommendation 4	2	2			
Recommendation 5	1		1		
Recommendation 6	2	2			
Recommendation 7	2		1	1	
Total	**12**	**8**	**2**	**2**	**0**
%	**100**	**66**	**17**	**17**	**0**

Overall Conclusion

According to information the ministries and the Provincial Controller's Office provided to us, as of June 23, 2017, of the seven recommendations consisting of 12 actions we made in our *2015 Annual Report*, eight (66%) of the actions had been fully implemented. The ministries and the Provincial Controller's Office have made progress in implementing two (17%) more of the actions recommended.

For example, the government designated a central oversight body with overall responsibility for managing contaminated sites. Also, a central database inventory of all contaminated sites in the province has been developed and implemented. And the ministries finalized the risk prioritization model that ministries will use to assess all remediation funding proposals. Also, the Provincial Controller's Office is in the process of finalizing its Accounting and Financial Reporting Policy and Guidelines for Environmental Contamination.

However, there has been little or no progress on two actions. They will take more time to fully address, specifically:

- providing the public with access to information on contaminated sites for which the government has recorded a liability; and

- providing ministries with guidance for carrying out an annual review of their liability estimates, and carefully monitoring ministry liability submissions to ensure that adjustments are made, where required, before their inclusion in the Province's consolidated financial statements.

The status of actions taken on each of our recommendations is described in this report.

Background

Governments are responsible for cleaning up certain sites in their jurisdictions that have been contaminated by chemicals or other materials that are hazardous to the environment or to human health.

In Ontario, a number of provincial laws deal with environmental protection and contamination. The most comprehensive law is the *Environmental Protection Act*. It states that if contamination in an area for which the Province is responsible causes or may cause an adverse effect on the environment or human health, the government must clean it up. Several ministries and provincial agencies share responsibility for the Province's contaminated sites. They are:

- Ministry of the Environment and Climate Change;
- Ministry of Natural Resources and Forestry;
- Ministry of Northern Development and Mines;
- Ministry of Economic Development, Employment and Infrastructure;
- Ministry of Transportation;
- Ministry of Housing; and
- Government agencies, such as Ontario Place Corporation and the Ontario Mortgage and Housing Corporation.

To fulfill the responsibility of cleaning up contaminated sites, governments need strong systems for identifying the sites in their jurisdictions, assessing the nature and extent of the contamination, implementing programs to mitigate the risks posed by these sites to the public and the environment, and for remediating these sites for future use.

At the time of our audit in 2015, we noted that there were weaknesses in the government's processes for identifying, measuring, and reporting on its contaminated sites liability. While we were satisfied with the government's efforts to identify all contaminated sites for which it is financially responsible, we wanted to see a continued focus on improving the government's estimate of its financial liability for these sites in the future.

We found that there was no centralized oversight of the way in which ministries managed their contaminated sites and estimated their liabilities in this area.

Additional significant observations included:

- The government needed a centralized inventory of contaminated sites. Without one, it is difficult to get a complete picture of the government's contaminated sites or track the progress of managing them. We found a few instances where more than one ministry reported being responsible for the same contaminated site.
- The Province needed a government-wide process for prioritizing high-risk contaminated sites for remediation. Without a model that captures and prioritizes all contaminated sites, the government risks funding remediation of lower-priority sites and neglecting sites that have a greater impact on the health and safety of the public.
- The government had no overall plan or funding strategy in place for cleaning up its contaminated sites. Although it had identified its high-risk contaminated sites, it lacked a central leader to manage the clean-up process from a government-wide perspective.
- Without clear direction, ministries may make errors in accounting for and reporting the liabilities associated with their contaminated sites. The Provincial Controller's Office provided guidance to ministries on implementing a new accounting standard in this

regard. While this guidance was helpful, the Provincial Controller's Office should provide ministries with additional formal guidance in several areas, including clarifying the types of costs that should be included in the liability calculation, clarifying when and how present value accounting techniques should be applied, and providing approaches to estimating a liability in the absence of an environmental site assessment.

- We found there was poor documentation to support the calculation of the liabilities associated with contaminated sites. Without adequate documentation, there is a risk that the number of contaminated sites for which the government is responsible and/or the costs associated with cleaning them up could be misstated. There is also the risk that critical information could be lost if staff who have knowledge in these areas leave government.
- The government had no policies or processes for updating financial liability estimates for remediating contaminated sites. Ministries need to monitor their sites and review them annually to determine whether environmental site assessments require updating or whether liability estimates need to be revised to reflect changes in technology, site conditions, environmental standards, inflation or other factors.

We made seven recommendations with 12 actions for improvement and received commitments from the ministries that action would be taken to address our recommendations.

Status of Actions Taken on Recommendations

We conducted our follow-up work between April 1, 2017 and June 23, 2017. We obtained written representation from the Treasury Board Secretariat and the ministries that effective September 1, 2017, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Need for Centralized Oversight of Contaminated Sites

Recommendation 1

To ensure that contaminated sites for which the government is responsible are identified and properly assessed, and that provincial liabilities are identified and valued on a timely basis:

- *the government should designate a central unit or ministry group with overall responsibility for managing contaminated sites;*
  Status: Fully implemented.

Details

During our 2015 audit, we noted that there was no centralized ministry oversight over the ministries' processes for managing their contaminated sites and estimating their contaminated site liabilities. Without proper oversight, government initiatives are rarely implemented effectively or on a timely basis. This lack of oversight was ultimately responsible for most of the errors and issues identified in our 2015 report.

In February 2017, the Treasury Board/Management Board of Cabinet authorized the Inter-ministerial Contaminated Sites Assistant Deputy Ministers' Steering Committee (Steering Committee) to be responsible for the implementation and management of the co-ordinated approach to provincial contaminated sites. The Ministry of the Environment and Climate Change is the Chair of the Steering Committee. The ministries remain responsible for addressing their inventory of contaminated sites, consistent with any direction provided by the Steering Committee. Therefore, the Steering Committee has the overall responsibility for the management of provincial contaminated sites.

- *The Inter-ministerial Contaminated Sites Assistant Deputy Ministers' Steering Committee should be reconvened to perform an oversight role until this function or co-ordinated team is established.*
  Status: Fully implemented.

Details

The Steering Committee reconvened on November 1, 2016. The Steering Committee has representation from all six ministries that have contaminated sites. Representatives from the Treasury Board Secretariat and the Ministry of Finance have been invited to participate as observers to provide advice. As of June 2017, the Steering Committee has met six times since reconvening in November 2016.

Improvements Needed in Tracking, Prioritizing and Funding Remediation of Contaminated Sites

Recommendation 2

To ensure that the government has a complete picture of its existing and potential contaminated sites liability, the stakeholder ministries should ensure that:

- *a centralized database inventory of all contaminated sites is developed and implemented;*
  Status: Fully implemented.

Details

At the time of our audit in 2015, we noted that there was a need for a centralized inventory of contaminated sites. Without a centralized inventory, it is difficult to form a complete picture of, or track progress in, managing the government's contaminated sites. In November 2016, the government began housing the centralized inventory of contaminated sites information within the Ministry of Natural Resources and Forestry's Land Information Ontario system. This system is accessible by all ministries with responsibilities for contaminated sites.

- *the public has access to information on contaminated sites for which the government has recorded a liability.*
  Status: Little or no progress.

Details

During our audit in 2015, we encouraged the government to provide public information on all contaminated sites. We noted that the federal government already provides information on each of its contaminated sites that the public can access online. At the time, the ministries' responded that they would undertake an analysis to guide decisions on public access to information on contaminated sites. Currently, the government has made little progress on this recommended action.

Many areas of work are outstanding regarding the extent and nature of public access to information on contaminated sites. These areas include: policy work involving all affected ministries; research on how much information is provided to the public on contaminated sites by other jurisdictions to support future policy considerations; and the development of a paper outlining options for public access for the approval of the Steering Committee.

Recommendation 3

To ensure that the cleanup of high-priority sites is consistently funded before that of low-priority sites, the stakeholder ministries should finalize the risk prioritization model and ensure that ministries use this model to assess all remediation funding proposals.
Status: Fully implemented.

Details

During our audit in 2015, we noted that high-risk sites needed to be prioritized for remediation. Without an Ontario Public Sector-wide risk prioritization model that captured all contaminated sites and prioritized them together, the government risked funding low-priority sites for remediation before high-priority sites that have a higher impact on public health or safety.

The risk prioritization model was finalized in November 2016. The model uses consistent information inputs to assess and score the risk to public health and safety and the natural environment posed by the contamination on each site. When used in combination with the centralized inventory of contaminated sites information, the model provides a score of approximate levels of risk posed by every site. This enables ministries to compare the results among contaminated sites across the province.

The prioritized list of contaminated sites was reviewed by the Steering Committee in November 2016. It recommended that ministries use this list during the fall 2017 Program Review, Renewal and Transformation to support their funding requests in order to remediate current sites with the highest priorities.

Recommendation 4

To ensure that ministries have sufficient resources available to remediate their high-risk sites in a prudent manner, the stakeholder ministries should:

- *co-ordinate the development of a long-term plan for remediating the Province's contaminated sites. The plan should incorporate both an annual and a long-term funding strategy;*
  Status: Fully implemented.

Details

During our audit in 2015, we noted that the government had no overall funding strategy or resources allocated specifically for the management of its contaminated sites. The lack of a funding and resource allocation strategy may leave the public exposed to long-term risks to human health or the environment.

The ministries' 2017/18 Program Review, Renewal and Transformation submissions included a long-term plan, co-ordinated by the Ministry of the Environment and Climate Change, outlining the cash flow requirements for the remediation of 65 specific sites. Through future quarterly reporting and annual Program Review, Renewal and Transformation processes, the government will continue to review ministries' updates and existing liabilities and the identification of new sites and associated impact. The 2017/18 submission reflects both the annual and long-term funding strategy for remediating the province's contaminated sites. This includes a plan to remediate 65 sites over the next eight years.

- *periodically report to the Treasury Board, on a consolidated basis, their progress in remediating sites under their annual and long-term plans.*
  Status: Fully implemented.

Details

During the 2015 audit, we noted that the government needed a system to periodically report on the progress made in remediating contaminated sites. This process would ensure that funding decisions are continually reviewed and revised as needed to reflect the latest available information, and plans adjusted accordingly to ensure resources are dedicated to the highest-risk sites.

Each ministry submitted to the Treasury Board/Management Board of Cabinet through the 2017/18 Program Review, Renewal and Transformation process their plan to remediate contaminated sites. These six submissions were consolidated and reviewed by the Treasury Board/Management Board of Cabinet at one meeting. Starting July 2017, through the quarterly reporting and Program Review, Renewal and Transformation processes, there was one consolidated submission, which reported the progress made by ministries in the remediation of contaminated sites and the long-term plan.

Improvements Needed to Liability Estimation Process

Recommendation 5

To ensure that the government's ongoing contaminated sites liability estimate is reasonably and

consistently calculated, the Office of the Provincial Controller Division should provide formal guidance to ministries on how to account for and measure these liabilities.

Status: In the process of being implemented.

Details

Our 2015 audit noted that improved guidance was needed to ensure consistent liability estimates among the ministries because without clear direction, ministries may make errors in accounting for and reporting their contaminated sites. We further noted that the Provincial Controller's Office could reduce the risk by providing ministries with additional guidance in several areas, such as:

- clarifying the types of costs that should be included in the liability calculation;
- clarifying if, when and how present value accounting techniques should be applied; and
- providing methods to estimate a liability in the absence of an environmental site assessment.

As of June 2017, the Provincial Controller's Office was in its final stage of reviewing its Final Draft Accounting and Financial Reporting Policy and Guidelines for Environmental Contamination (Policy and Guidelines). The Provincial Controller's Office is targeting a release date of the Policy and Guidelines by the end of September 2017. The planned implementation date will be retroactive to April 1, 2017 to be used for the 2017/18 fiscal year.

Recommendation 6

To ensure that future decisions and cost estimates for remediating contaminated sites are based on the best information available, and to prevent errors and inconsistencies, the stakeholder ministries should:

- *improve the supporting documentation they maintain regarding contaminated site liability estimates. Documentation should include explanations of how the contaminated site was identified, what risk-based approaches were used to identify high-risk sites, what remediation strategies were selected, how they were chosen, and what assumptions were used in determining and estimating liabilities;*

  Status: Fully implemented.

Details

During our 2015 audit, we found that the ministries' documentation to support their contaminated sites liability estimates was often incomplete. Without adequate documentation, there is a risk of misstating the number of contaminated sites the government has responsibility for and/or the cleanup costs associated with these sites. We noted the following areas that required improvement:

- site identification processes inadequately documented;
- risk-based approaches inadequately documented;
- remediation strategies inadequately documented; and
- valuation approach inconsistently applied.

Since our audit, the ministries have improved the quality of their documentation regarding contaminated site liability estimates. The ministries' documentation for the contaminated sites they are responsible for now includes the following:

- explanations of how the contaminated site was identified;
- what risk-based approaches were used to identify high-risk sites;
- what remediation strategies were selected and how they were chosen; and
- what assumptions were used in determining and estimating liabilities.

- *periodically review sites that have been classified as low risk to ensure that this clas-sification remains valid.*

  Status: Fully implemented.

Details

All ministries have a process in place to annually review low-risk sites to ensure this classification remains valid. Currently, there is only one site that is classified as low risk on the priority

list of contaminated sites for the province. The Ministry responsible for this site follows the process annually.

Recommendation 7

To ensure that the contaminated sites liability estimates reflect newly available relevant information:

- *the stakeholder ministries should implement a process for annually reviewing all of their liability estimates. This process should include a review of remediation costs incurred to date and an assessment of those costs in relation to the recorded liability to determine if the liability estimate needs to be updated;*

  Status: In the process of being implemented.

Details

Our 2015 audit noted that the government had no policies or processes requiring ministries to incorporate newly available information into their assessments and liability valuations of contaminated sites. Without formal updating processes, there is a risk that the calculations supporting the government's reported contaminated sites liability will lose accuracy over time.

Currently, five of the six ministries have a process in place to annually review all of their liability estimates. This annual process includes a review of costs incurred to date for remediation, and a review of any new information that may result in a change to the liability estimate. Therefore, this recommendation is fully implemented for five of the six ministries.

However, this recommendation is in the process of being implemented for one of the six ministries. The remaining ministry annually reviews and updates its liability estimates, but this process does not include all sites. For the sites that are currently not annually reviewed, this ministry plans to review and update the previous liability estimates for its sites with the results of updated assessments. Those assessments will be performed over a three-year period starting April 1, 2017 and ending March 31, 2020.

- *once established, the central unit or ministry group should provide the ministries with guidance for carrying out this annual exercise, and carefully monitor ministry liability submissions to ensure that adjustments are made, where required, before their inclusion in the Province's consolidated financial statements.*

  Status: Little or no progress.

Details

As of June 2017, the Steering Committee was waiting for the Accounting and Financial Reporting Policy and Guidelines for Environmental Contamination (Policy and Guidelines) to be finalized before moving forward with this recommended action. As noted under **Recommendation 5**, as of June 2017, the Provincial Controller's Office is in its final stage of reviewing the Policy and Guidelines. The planned date to initiate the Policy and Guidelines will be retroactive to April 1, 2017 to be used for the 2017/18 fiscal year. The Steering Committee plans to review the final Policy and Guidelines to develop a single package of consistent guidance to address our recommendation from 2015. The Steering Committee plans to have this single package available late fall 2017 so it can be used by the ministries to support 2017/18 year-end work.

Ministry of Northern Development and Mines

Mines and Minerals Program

Follow-Up on VFM Section 3.11, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3	1	1	1	
Recommendation 2	3			3	
Recommendation 3	1	1			
Recommendation 4	2	1		1	
Recommendation 5	4	3	1		
Recommendation 6	3	1		2	
Recommendation 7	1		1		
Recommendation 8	1			1	
Recommendation 9	3	1	1	1	
Recommendation 10	2		1	1	
Recommendation 11	2		2		
Recommendation 12	2	1	1		
Recommendation 13	1		1		
Total	**28**	**9**	**9**	**10**	**0**
%	**100**	**32**	**32**	**36**	**0**

Overall Conclusion

According to the information that the Ministry of Northern Development and Mines (Ministry) provided to us, as of July 31, 2017, 32% of the actions we recommended in our *2015 Annual Report* have been fully implemented. The Ministry has also made progress in implementing 32% of the recommended actions. However, there has been little or no progress on the remaining 36% of actions.

Overall, the Ministry has done the following:

- implemented a monitoring and tracking system for all current geosciences projects;
- undertaken steps to improve the transfer payment reporting process for payments to the Indigenous communities in the Ring of Fire region;

- hired a Closure Plan Co-ordinator to review all mine closure plans and ensure appropriate technical reviews have been completed by the relevant technical specialists; and
- improved its process to review a mine's rehabilitation by its private owner before returning a portion of the financial assurance. This improved due diligence ensures that the mine development is in line with the closure plan.

However, some areas that still require work include:

- evaluate its current investment-marketing activities and determine whether new, more appropriate strategies should be implemented;
- establish a detailed plan for the development of the Ring of Fire with measurable outcomes and regularly assess and report on progress in achieving them;
- inspect all high-risk abandoned mines that have not been inspected in the previous five years to determine whether these sites pose risks to public safety; and
- review and update, where necessary, the Province's mining fees, taxes and royalty payments to ensure that Ontarians receive a fair share of the province's mineral resources.

Background

The Ministry of Northern Development and Mines (Ministry) is responsible for overseeing the province's minerals sector in accordance with the *Mining Act* (Act). Ontario is the largest mineral producer in Canada, accounting for a quarter of the country's mineral production. The Act and its regulations are intended to encourage development of mineral resources in a way that recognizes existing Indigenous and treaty rights and minimizes adverse effects on public health and safety and the environment.

The responsibilities under the Act are carried out by the Ministry's Mines and Minerals Division and its Ring of Fire Secretariat (Secretariat), which is responsible for overseeing the development of the Ring of Fire mineral deposit in Northern Ontario. In the 2016/17 fiscal year, the Mines and Minerals Division had more than 253 full-time employees and spent $40 million.

Our 2015 audit highlighted that the Ministry had not been effective in encouraging timely mineral development in the province. A 2014 edition of a Fraser Institute annual survey of mining and exploration companies ranked Ontario ninth among Canada's provinces and territories in investment attractiveness in mineral exploration, even though it had one of the lowest mining tax rates in the country. As of September 2015, Ontario's effective tax rate was only 5.6%, considerably lower than the national average of 8.6%. However, exploration spending in Ontario peaked at $1.1 billion in 2011 and had since dropped by 50% in 2014.

We also noted that the amount of mining taxes and royalties collected from mining companies over the previous 20 years had averaged less than 2% of the value of minerals extracted. Ontario had collected very little in royalties from its only diamond mine. The Ministry also lacked adequate processes to manage mine closure plans and the rehabilitation of abandoned mines.

In 2010, the government established the Ring of Fire Secretariat to work and consult with Indigenous peoples, Northern Ontarians and the mining community to encourage the sustainable development of the Ring of Fire. The Secretariat has 19 full-time staff in Sudbury, Thunder Bay and Toronto. Since it was established, the Secretariat has incurred over $19.5 million in operating expenses.

The Ring of Fire is in the James Bay lowlands, about 500 kilometres northeast of Thunder Bay. It is approximately 5,000 square kilometres, with most mineral discoveries to date located in a 20-kilometre-long strip. In 2001, significant deposits of nickel, copper, zinc and platinum were identified. However, it was the discovery of North

America's first commercial quantity of chromite in 2008 that attracted more intense interest to the area. Chromite is a mineral used to make ferrochrome, an alloy essential to making stainless steel, and is in demand worldwide. The chromite deposit is estimated to be at least 220 million tonnes, which would make it one of the richest deposits in the world. The chromite and nickel deposits in the region are estimated to have a potential value of $60 billion. The Ring of Fire discovery is one of the province's greatest mining opportunities. However, at the time of our audit, the area was not close to being ready for production and the Ministry had no detailed plan or timeline for developing the region.

Our other significant observations from our *2015 Annual Report* included the following:

- The Ministry's marketing strategies may be ineffective, and it was slow to make geosciences information available to the mining industry. Mapping projects expected to be completed by 2014 were behind an average of 19 months. As well, over 1,250 geological assessments dating back to 2013 had not yet been made publicly available online through a searchable database. As a result, this technical information was not easily accessible to potential developers to help them identify opportunities for mineral exploration and development.
- Investment was slowed because of a lack of clarity on requirements to consult with Indigenous communities.
- Since 1993, the Ministry had not estimated the total cost of rehabilitating the 4,400 abandoned mine sites in Ontario and therefore did not know the current cost for doing so. As well, it did not have a long-term plan for rehabilitating these abandoned mine sites. The Ministry recently determined rehabilitation costs for the 56 highest-risk contaminated sites alone to be $372 million. However, it had no plans to carry out a detailed cost estimate for the remaining sites, where potential rehabilitation costs could range from $163 million to $782 million.
- The Ministry had conducted minimal inspections and follow-ups on abandoned mines and had inspected only 6% (248) of abandoned mines to ensure that they did not pose a risk to public health and the environment. Of 362 mines that were considered high-risk, only 142 had been inspected.
- The remoteness of the Ring of Fire requires significant infrastructure investment to open access to it and to encourage development in the region. In 2014, the provincial government committed $1 billion to infrastructure in the region, contingent on matching funds from the federal government. However, the federal government did not commit to match the funds because of the lack of detailed plans for development. The Province's commitment alone will not be enough to meet the region's infrastructure needs.
- No minerals had been extracted yet from the Ring of Fire. In 2013, an international mining company that held the rights to develop the chromite deposits pulled out and sold most of those rights to a Canadian junior mining company. The Canadian company had no current plans to develop the chromite holdings. Other potential investors cannot mine most of the chromite in the region unless the Canadian company agrees to sell its rights.

In our report, we recommended, among other things, that the Ministry do the following:

- evaluate its current investment-marketing activities and determine whether new, more appropriate strategies should be implemented;
- ensure that requirements surrounding its Indigenous consultation process are clarified and can be easily understood by potential investors;
- establish a detailed plan for the development of the Ring of Fire with measurable outcomes

and regularly assess and report on progress in achieving them;

- inspect all high-risk abandoned mines that have not been inspected in the previous five years to determine whether these sites pose risks to public safety; and
- review and update, where necessary, the Province's mining fees, taxes and royalty regimes to ensure that Ontarians receive a fair share of the province's mineral resources.

We made 13 recommendations, consisting of 28 actions, to address our audit findings.

We received commitment from the Ministry that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and July 31, 2017. We obtained written representation from the Ministry of Northern Development and Mines (Ministry) that effective September 1, 2017, it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

The status of actions taken on each of our recommendations is described in the following sections.

Ontario Could Do Better to Attract Mining Investment

Recommendation 1

To attract more investment in the province's mining sector, the Ministry of Northern Development and Mines should:

- *fully evaluate the cost-effectiveness of its current investment-marketing activities and determine if new, more appropriate strategies should be implemented (we made a similar recommendation in our* 2005 Annual Report*);*

Status: Little or no progress.

Details

At the time of our audit in 2015, the Ministry had a 2012 marketing strategy to promote Ontario as the premier destination internationally for mineral exploration, development and investments. Activities identified in the strategy include:

- building relations with the industry and other stakeholders;
- engaging the media to spread the message that Ontario is actively seeking new mineral investments;
- creating a presence at international and domestic events and trade shows; and
- building an online community for the sector to engage target audience(s).

However, we noted that the majority of its marketing efforts were focused on participating in about five selected trade and investment marketing events annually. The Ministry had not assessed the effectiveness of its marketing efforts, nor had it attempted to determine whether it was pursuing the right mix of activities to maximize its exposure to potential investors.

Since our audit, the Ministry has integrated its marketing strategy for the province's mining sector with the Ministry's other Trade and Investment Marketing activities, which target and engage with companies in order to attract and secure new investments in Northern Ontario, including in the mining sector.

In November 2016, the Ministry approved a new Trade and Investment Marketing Strategy to help job creation, investment and trade enhancements across Northern Ontario, including promoting investment opportunities in the province's mining sector. Performance measures identified in the strategy include:

- the amount in dollars of export sales opportunities identified;
- new qualified leads for potential investments;

- number of closed/won investment deals facilitated and resulting in direct jobs; and
- number of closed/won investment deals facilitated and amount invested.

At the time of our follow-up, the Ministry had not begun monitoring these performance measures for the mining sector and evaluating the cost effectiveness of its marketing strategies.

- *complete geological mapping projects and upload the final reports, including geological assessment reports from prospectors, on a timely basis to better facilitate the use of this information by potential prospectors;*
  Status: Fully implemented.

Details

Using information collected through geological surveys and field visits, the Ministry produces geological maps and reports that describe the structure, attributes, chemical composition, and physical properties of land in Ontario. The mining industry uses this geosciences information to identify and select areas for mineral exploration.

As such, it is important to provide high-quality and timely information to the industry to attract exploration and development to the province. However, our 2015 audit found that many mapping projects were not being completed on a timely basis, and the Ministry was slow to upload geological assessment reports submitted by prospectors for online access. At the time of our audit, mapping projects were on average 19 months behind schedule and there was a backlog of about 1,250 assessment reports to be uploaded online.

After our audit, in April 2016, a Project and Results Management Co-ordinator position was permanently filled to create a project monitoring and tracking system for all current geosciences projects. All decisions that affect project progress or changes are now required to be documented; we noted that the timeliness of these projects has improved since our audit. In addition, the Ministry no longer has a backlog of geological assessment reports to upload online.

- *ensure that the requirements surrounding its Aboriginal consultation process are clarified and can be easily understood by potential investors and Aboriginal communities with serious consideration of the Province assuming more of a leadership role.*
  Status: In the process of being implemented by March 2018.

Details

In cases where exploration or mine development on Crown land has adverse effects on existing Indigenous or treaty rights, the Province has the legal duty to consult with those communities. The level and amount of consultation is determined based on the degree of potential impact on the communities and the nature of the Indigenous and treaty rights in question.

During our 2015 audit, we noted that the Ministry would identify the Indigenous communities that need to be consulted and delegate aspects of the consultation process to the mining and exploration companies, such as providing information to the communities and ensuring the concerns the communities raised were addressed or minimized.

However, mining industry associations raised concerns about the delegation of the consultation process and indicated that the process discouraged private-sector investment. Further, a 2014 Fraser Institute report noted that the lack of clarity and understanding of Indigenous consultation was a factor in Ontario's low ranking among Canadian jurisdictions.

Since our audit, the Ministry has taken steps to improve the Indigenous consultation process by taking a direct and central role for early exploration activities. For example:

- The Ministry now requests that the Indigenous communities provide it with comments on any potential adverse effects on their Indigenous or treaty rights of the proposed activities.
- The Ministry may then direct any comments to the private companies that require further explanation, or to discuss and consider adjustments on the proposed activities in order to

mitigate potential adverse effects identified by the Indigenous communities.

For Indigenous consultation on advanced exploration and mine production, the Ministry will continue to delegate certain aspects of consultation to the private companies. The Ministry says that the companies can explain their projects better and know what alterations or changes can be made to accommodate comments and concerns from the Indigenous communities.

However, the Ministry is piloting a new process to increase the rigor of the consultation process for advanced exploration and mine production. This new process will involve Ministry staff and community members in a joint review process with the industry on large new or existing projects. This process will begin when an applicable mine closure plan is received by the Ministry for advanced exploration or mine production. The Ministry expects to receive the next mine closure plan by March 2018.

Ring of Fire Development Has Been Slow

Recommendation 2

To help ensure the timely development of the Ring of Fire, the Ministry of Northern Development and Mines should:

- establish a detailed plan with measurable outcomes, and regularly assess and report on progress in achieving them;
  Status: Little or no progress.

Details

In 2010, the Ring of Fire Secretariat was established to lead the overall development of the region, including co-ordination of infrastructure needs, economic development, the environmental assessment process, and Indigenous consultation.

However, our 2015 audit found that the government's development initiatives had few timelines for completion, and where target dates did exist, they were missed. For instance, mine development cannot begin until environmental assessments and land use planning are complete and both were still incomplete at the time of our audit. Further, the Ring of Fire Secretariat had no performance measures to gauge and report on the effectiveness of the activities it had undertaken to help development in the region.

Since our audit, the Ministry has developed a plan with anticipated timelines and is internally reporting on its progress. However, the Ministry noted that the timelines for development continue to be adjusted based on current conditions and any number of external factors beyond the Ministry's control.

For instance, the project plans depend on achieving a number of milestones in partnership with the Indigenous communities, such as identifying a preferred corridor for an all-season road connecting some of the Indigenous communities. A Regional Community Service Corridor Study released in June 2016 was supposed to identify this corridor; however, it did not. Instead, it identified other issues that the Indigenous communities were seeking resolution on, including road ownership, governance, and the impacts of road access on the existing funding formula for remote communities. The Ministry is addressing these issues.

A draft set of performance measures was developed during 2015/16 based on the discussions at that time. However, with the shift to priorities noted in the June 2016 study, the prepared draft measures were no longer appropriate. The Ministry then decided to suspend the identification of Ring of Fire performance measures until clear priorities and direction were agreed to by the Chiefs of the Indigenous communities and senior management in the Ontario Government.

On August 21, 2017, the Province announced that it will support First Nations to plan and construct two all-season access roads connecting three First Nation communities to the existing provincial highway network. The First Nation communities are working to begin environmental assessments

for these projects by January 2018, with construction planned for 2019. With this announcement, the Ministry will now be updating its project plans and performance measures that were previously developed in 2015/16.

- *continue to engage all stakeholders, including the federal government, in the funding and development of the region;*
  Status: Little or no progress.

Details

In the 2014 Budget, the government committed up to $1 billion to develop strategic all-season industrial and community transportation infrastructure in the Ring of Fire. It also announced a multi-stakeholder development corporation to accelerate infrastructure development in the region.

At the time of our audit, the Ministry had not set any timelines for infrastructure projects in the Ring of Fire that could be funded from the government's $1-billion commitment. Also, the corporation was intended to bring together both private and public sectors—including key mining companies, Indigenous communities and the federal government—to create partnerships and help with investment decisions in the transportation infrastructure; however, the corporation had no representation on the board of directors from any of these stakeholder groups.

Since our audit, the Ministry has worked with the federal government on projects in the Ring of Fire, including:

- expanding broadband connectivity for the Indigenous communities;
- supporting training in the areas of health and wellness; and
- promoting skills training to ensure the communities are able to participate in discussions on development.

However, there has been no progress on development of infrastructure projects. Discussions on development in the area depend on identifying a preferred corridor for an all-season access road; the Province just recently announced that it will support First Nations to plan and build two all-season access roads connecting three First Nation communities to the existing provincial highway network as noted in discussion of the first bullet point of **Recommendation 2**. Further, the Ministry has not applied to the federal New Building Canada Fund, which offers funds to assist with infrastructure projects that could lead to economic growth. Also, there has been no stakeholder involvement in the corporation, which has spent $1.4 million, primarily on infrastructure studies, since its inception.

- *work to expedite negotiations with Aboriginal communities.*
  Status: Little or no progress.

Details

In March 2013, the Chiefs of the Matawa Tribal Council, representing the nine First Nation communities in the region, requested a community-based regional process for negotiating with the government. A Regional Framework Agreement was signed in March 2014, with the purpose of establishing a protocol for negotiations between the communities and the Province. This was Phase 1 of the negotiations with the Chiefs of the Matawa Tribal Council.

Phase 2 of negotiations then began to plan for the shared priorities identified in this framework agreement, such as resource-revenue sharing, and regional and community infrastructure planning. However, there was no completion date for this phase. As of June 2017, Phase 2 was still in progress without a target completion date.

There is no commitment on specific targets for negotiations under the Regional Framework Agreement. However, as noted in discussion of the first bullet point of **Recommendation 2**, the Ministry is working with the Indigenous communities on resolving issues identified in the study released in June 2016 for a preferred corridor for an all-season road. As well, the Province has recently announced that it will support First Nations to plan and construct two all-season access roads connecting three

First Nation communities to the existing provincial highway network.

Recommendation 3

The Ring of Fire Secretariat should ensure that transfer payments made to Aboriginal communities in the Ring of Fire are used in accordance with the transfer payment agreements by obtaining the requisite reporting (progress reports, expense reports and audited financial statements) on a timely basis. The reports submitted should be detailed enough to show how the funds are spent.

Status: Fully implemented.

Details

Since its inception in 2010, the Secretariat has transferred about $32 million to the nine Indigenous communities in the region to help build knowledge within the communities to prepare for, and respond to, mining development within the region. The communities are required to provide reports for the payments they receive. However, at the time of our audit in 2015, we noted that these reports were not submitted on a timely basis, and the reports that were submitted contained little supporting documentation to show whether the funds were spent according to the transfer-payment agreements.

Since our audit, the Secretariat has undertaken several activities to improve the transfer payment reporting process. These include:

- developed a suite of tools and templates that can be used by key community staff in meeting reporting requirements. They were created from a review of previously provided reporting materials;
- provided the Indigenous communities with additional funds and hands-on coaching and support to help meet reporting requirements;
- created a joint Ontario-tribal council team (Joint Regional Framework Agreement Team) that meets regularly to discuss concerns, review material and respond to questions and requests from the communities related to the requirements of transfer-payment agreements;
- aligned the quarterly reviews of program financials and milestones with the quarterly reporting requirements in the agreements. This ensures that work is proceeding as expected and that reporting material is provided on a timely basis; and
- updated its reporting templates so that the work done to validate reported expenses is clearly stated, including more explicitly identifying and tracking changes in activities and budget.

The Secretariat is also making efforts to obtain outstanding reports and track missed timelines. In our review of a sample of reports and the Secretariat's tracking sheets for 2016, we observed that the reports and supporting documents were submitted on a timelier basis to the Secretariat.

Staking and Claims System Needs Improvement to Ensure Exploration Work Continues Responsibly

Recommendation 4

To ensure continual exploration on claimed land, and proper rehabilitation of sites where exploration has taken place, the Ministry of Northern Development and Mines should:

- *disallow forfeited claims from being re-staked by the same owners until an appropriate period has passed (we made a similar recommendation in our* 2005 Annual Report*);*

  Status: Little or no progress.

Details

The first step in exploration is for licensed prospectors to stake a mining claim, which gives them exclusive right to explore for minerals. As of April 2017, there were about 31,913 registered claims covering 3.5 million hectares of Crown land. To maintain a claim in good standing, the holder must perform

a minimum of $400 worth of eligible exploration work annually for each claim unit (one claim unit is 16 hectares of land) and report these activities to the Ministry for approval.

Our 2015 audit noted that when claimholders forfeit mining claims because they have not performed the minimum exploration work, the Ministry allows them to re-stake the claims. This allows prospectors to maintain claims indefinitely without performing the required exploration work, which could negatively impact the discovery of mineral resources.

While the Ministry is working to identify some suspect claims and follow up with the owners, we noted there is still no plan to disallow the re-staking of claims forfeited by the same owners.

- *develop a risk-based plan to inspect sites undergoing exploration work with the potential to have a negative impact on the environment.*
  Status: Fully implemented.

Details

The *Mining Act* requires rehabilitation of sites where exploration work has impacted the environment. Prospectors who perform moderate-impact assessment work, for example mechanized surface stripping greater than 100 square metres, are required to apply for an exploration permit and must perform rehabilitation work prior to the permit's expiration date.

In our 2015 audit, we noted that the Ministry's inspections of sites to ensure that sufficient rehabilitation has been completed were limited. Only a total of 41 inspections were completed in 2013 and 2014, representing only 6% of the sites with an active plan or permit as of December 2014.

Since our audit, the Ministry has been developing a risk-based approach to inspect sites that are undergoing exploration work. The factors that will be considered in identifying high-risk sites for inspections include:

- the scope of early exploration activities;
- the scale of the proposed activities on the site; and
- the compliance history for the site.

The Ministry completed the development of the risk-based approach in July 2017. The Ministry indicated that it will review existing exploration sites on an annual basis and use the risk-based approach to decide which sites to inspect.

Financial Assurance May Be Insufficient to Cover Mine Close-Out Costs

Recommendation 5

To ensure submitted closure plans are adequately reviewed and reflect activities that are taking place on a mine site, the Ministry of Northern Development and Mines should:

- *segregate the responsibility for the promotion of mineral exploration and development in Ontario from those responsible for the oversight of mine-closure plans;*
  Status: Fully implemented.

Details

The *Mining Act* requires a mining company to submit a closure plan and financial assurance for the estimated cost to rehabilitate a site before it commences advanced exploration activities or mining operations. In 2015, the Ministry had 13 in-house Mineral Exploration and Development Consultants. They were responsible for overseeing and reviewing the industry's mine-closure plans. This included assessing whether the amount of the financial assurance provided by mining companies will be sufficient to rehabilitate sites when advanced exploration or mineral development activities cease.

Our 2015 audit found that the consultants had a conflicting role. As well as overseeing mine-closure plans, they also promoted mineral exploration and development in Ontario by helping the industry through the regulatory process to develop mining

projects. This resulted in instances in which the consultants did not recommend the more stringent rehabilitation requirements on the industry as advised by Ministry specialists or inspectors because they felt the requirements created hardship for mining companies.

Since our 2015 audit, the Ministry has taken steps to ensure that the consultants have a better understanding of their roles and responsibilities for the oversight of mine-closure plans. These steps include reviews of staff roles and responsibilities during staff meetings held twice a year and clarification of expectations of the consultants' roles in their employee performance development and learning plans.

In addition, the Ministry has also hired a Closure Plan Co-ordinator to work directly with the consultants to ensure that technical specialist(s) review closure plans. The role of the Closure Plan Co-ordinator is discussed further under the second bullet point of **Recommendation 5**.

- *develop specific guidelines on when high-risk components of closure plans should be subjected to expert review;*
  Status: Fully implemented.

Details

The Mineral Exploration and Development Consultants can choose to pass along high-risk components of mine-closure plans for technical review by the Ministry's three rehabilitation specialists, who have technical expertise in different mine hazards such as tailings, and acid and metal leaching into the environment. However, in our 2015 audit, we noted there were no guidelines regarding when certain components of closure plans should be subject to technical review. In our review of a sample of closure plans, we found only 30% of files had any evidence that specialists' input had been sought. We also found plans that were not reviewed by a specialist but had risk factors that may have warranted a specialist's review.

During our 2015 audit, the Ministry hired a Closure Plan Co-ordinator, who is a professional engineer, to start addressing this recommendation. The role of this new position is to ensure a more thorough and consistent review of the rehabilitation requirements and financial assurances in the closure plans. The Co-ordinator works directly with the consultants to review all closure plans and ensure appropriate technical reviews have been completed by the relevant technical specialist(s) for high-risk components of the closure plans.

All reports and correspondence regarding the closure plans are now centrally stored on a shared drive and form the technical and administrative recommendation to the Director of Mine Rehabilitation for approval.

- *inspect sites that have a closure plan in place on a regular basis to ensure the plan accurately reflects current mining activities on the sites;*
  Status: In the process of being implemented by December 2017.

Details

At the time of our 2015 audit, the Ministry was not regularly conducting site inspections to ensure that the closure plans for mines accurately reflected the mining activities that were taking place. Of the 162 closure plans on file as of August 2015, 16 had not been inspected within the Ministry target of five years, and 10 had never been inspected.

As of August 2017, the Ministry has identified 176 closure plans, of which 72 are high risk because they are for active sites. We noted that the Ministry has inspected all but five of the 72 high-risk active sites within the last five years and has committed to completing these inspections by December 2017. For the remaining sites that are inactive or closed-out, the Ministry has established a risk-based approach to inspect these sites and this is documented on its annual master work plan schedule.

- *enforce the rehabilitation requirements recommended by ministry specialists and inspectors*

and take proactive measures to ensure that the financial assurance is adjusted accordingly on a timely basis.

Status: Fully implemented.

Details

As discussed in the first bullet point of **Recommendation 5**, our 2015 audit noted that the Mineral Exploration and Development Consultants were not always enforcing the rehabilitation requirements recommended by Ministry specialists and inspectors. For example, in one case, we noted the consultant had accepted financial assurance for land re-vegetation at a cost that was 10 times lower than the recommended cost.

Since our audit, the Ministry has started a process to track the rehabilitation requirements recommended by the Ministry specialists and inspectors and the responses from the mining companies. This new tracking document will help ensure that requirements identified by the specialists and the inspectors are addressed.

The Closure Plan Co-ordinator, whose role is to ensure the closure plans have received the appropriate technical reviews, reviews this tracking document prior to filing the closure plans. The tracking document is also included in the briefing to the Director of Mine Rehabilitation for approval.

Any amendments to closure plans, and any increases in financial assurance as a result of the technical review of the plans, are also stored in a shared directory at the Mineral Development and Lands Branch of the Ministry.

Recommendation 6

To ensure that the amount of the financial assurance collected by the Ministry of Northern Development and Mines (Ministry) provides sufficient security against potential liabilities related to mine close-out costs, the Ministry should:

- *require mining companies to regularly update their estimated mine close-out costs and the related financial assurance to reflect changing market conditions and changes to rehabilitation standards (we made a similar recommendation in our* 2005 Annual Report*);*

  Status: Little or no progress.

Details

Mining companies are required to submit closure plans with cost estimates for rehabilitation of the mining site prior to starting advanced exploration activities or mining operations. These cost estimates are based on the market rates at the time of submission and are used in calculating the amount of financial assurance to be held as a security if the mining company fails to perform adequate rehabilitation work. Mining companies are not required to regularly update the estimated costs to reflect changing market conditions and rehabilitation standards.

Our 2015 audit found that one-third of closure plans were filed or last amended in the 1990s and early 2000s. Applying a simple rate of inflation adjustment resulted in a potential $63-million shortfall between the financial assurances the Ministry originally collected and the potential costs of closing and rehabilitating the mining sites. Further, the Ministry took no action to ensure closure plans and related costs were compliant with current standards. Over 20% of closure plans predated the rehabilitation standards implemented in 2000, and two-thirds of these plans were submitted during a period when the Ministry had no technical experts.

Since our 2015 audit, the Ministry has researched practices in other jurisdictions and developed policies that support the regular updating of mine closure costs. However, the Ministry has not demonstrated that it is implementing these practices.

- *verify when it inspects progressive rehabilitation prior to returning a portion of the financial assurance whether mine development is still in line with the existing closure plan, and that no other hazards exist on site which the Ministry was not previously aware of;*

  Status: Fully implemented.

Details

Over the life of a mine or exploration activities, companies can request the return of portions of the financial assurance after they have undertaken progressive rehabilitation work. This portion is returned following a Ministry inspection of the site and acceptance of the work. In our 2015 audit, we noted concerns over the limitations of these inspections and an instance of the Ministry returning financial assurance of $500,000 and subsequently becoming liable for clean-up of contamination on the same site at an estimated cost of $2 million.

Since our audit, the Ministry is documenting discussions with the mining companies on changes to the site that have occurred since the most recently amended closure plan. The Ministry also takes into account the amount of financial assurance required to conduct the remaining rehabilitation on the site. This is done when mine owners request the return of financial assurance. We noted on several occasions, the Ministry returned lower amounts than were requested after it identified other hazards on sites that increased estimated costs for rehabilitation.

- *reassess its practice of allowing certain companies to self-assure mine close-out costs (we made a similar recommendation in our* 2005 Annual Report*).*

  Status: Little or no progress.

Details

If a mining company's credit rating meets or exceeds two of the following credit rating thresholds, the company is allowed to self-assure the mine close-out costs for the entire life of the mine and is not required to provide any other form of security to the Ministry:

- A (low) from the Dominion Bond Rating Service Limited;
- A3 from Moody's Investors Services Inc.; and
- A– from Standard and Poor's Inc.

The company is allowed to self-assure for the first half of the life of a mine if that first half is at least four years and the company meets or exceeds BBB (low), Baa3, and BBB– rating from the same three credit rating agencies.

We noted that although this is allowed under the *Mining Act*, it exposes the government to some financial risk. If the companies are unable to meet their obligations, the rehabilitation costs become the Province's responsibility. The Ministry has yet to perform any work specifically assessing this practice.

The Ministry stated that it is currently supporting the "Red Tape Challenge" for the mining sector. The Red Tape Challenge is a government-wide initiative in which external stakeholders, such as businesses and industry, submit concerns relating to 'red tape' (barriers) that limit the private sector's work in increasing economic growth. The feedback and participation from the mining sector is expected to be completed by March 2018. The Ministry is awaiting these results to assess the next steps on the issue of self assurance.

Recommendation 7

To inform the public on the potential liabilities related to mine close-out costs, the Ministry of Northern Development and Mines (Ministry) should annually publish the approved mine closure plans (for rehabilitation and restoration), including the estimated closure cost and associated financial assurance held by the Ministry.

Status: In the process of being implemented by October 2017.

Details

Although the mine-closure plans may be viewed by the public at any time by directly contacting the Ministry, at the time of our 2015 audit, the information on the amount of financial-assurance associated with the closure plans was not made available.

Since our 2015 audit, the Ministry has advised mining companies that the financial assurance component of their mine-closure plan will be publicly available. The Ministry has compiled a list of all companies with filed closure plans and the

corresponding financial assurance. The Ministry has confirmed that this information will be made available on its website by October 2017.

Recommendation 8

The Ministry of Northern Development and Mines should work with the Ministry of Environment and Climate Change to assess the benefits of larger mining projects in Ontario undergoing a provincial environmental assessment similar to the environmental assessments conducted in other Canadian provinces.

Status: Little or no progress.

Details

An environmental assessment is a process undertaken to identify, predict and mitigate any effects that a proposed project may have on the environment before the project begins. Ontario is the only province in Canada that does not require a provincial environmental assessment to be performed for mining projects.

The Ministry has identified that little to no progress has been made on this recommendation. The Ministry will continue to work with the Ministry of the Environment and Climate Change as it looks at ways it can further improve the existing program as committed to in the Environmental Assessments audit in our *2016 Annual Report*.

Abandoned Mines Pose Significant Financial Risks to Ontario

Recommendation 9

To protect public health and safety and the environment from the risks posed by abandoned mines, the Ministry of Northern Development and Mines should:

- as soon as possible inspect all high-risk abandoned mines that have not been inspected in the last five years to determine if these sites pose risks to public safety;
  Status: In the process of being implemented by March 2019.

Details

The Ministry currently knows of about 4,400 abandoned mines in Ontario containing over 15,000 mine hazards. The hazards include shafts, open pits, structures on the land, rock piles and tailings waste. The Crown holds about 2,400 of these abandoned mines and the other 2,000 are privately held. The Province is responsible for the clean-up of any hazards in abandoned mines held by the Crown and for monitoring and enforcing the rehabilitation of privately held mines.

At the time of our 2015 audit, we noted that the Ministry conducted minimal inspections and follow-up activities on abandoned mine sites to ensure that these mines do not pose a threat to human health or the environment. In the five years preceding our audit, the Ministry had only inspected about 6% (248) of the approximately 4,400 abandoned mines on both Crown and privately held sites. Of the 362 high-risk sites, only 142 (39%) had been inspected at least once in the previous five years by the Ministry.

Since our audit, the Ministry has developed a schedule for the inspections of 44 high-risk mine sites with tailings (tailings are fine-grain material left over from the processing of mineral ores; tailings are held in place by earth-filled dams). The Ministry is developing an inspection schedule for the remaining high-risk abandoned mine sites. The inspection programs and plans for these sites were approved in August 2017. The inspection schedule will depend on the assessment of the sites using the prioritization ranking system, as discussed in the second bullet point of **Recommendation 9**, along with the date of the sites' last inspection. The Ministry expects to complete these inspections by March 2019.

- *adopt a risk-based process to regularly monitor and inspect previously inspected abandoned mines to ensure that the conditions at the sites are not posing a risk to human health or the environment (we made a similar recommendation in our* 2005 Annual Report*);*
  Status: Fully implemented.

Details

Since our 2015 audit, the Ministry has developed a prioritization ranking system to identify the abandoned mines requiring monitoring and inspections. The results of the ranking, the Ministry's internal knowledge and expertise, and concerns from the public or Indigenous communities determine whether the sites are selected for inspection.

For example, highest priority abandoned mines that have tailings and are estimated to cost more than $10 million to rehabilitate will rank higher on the list than sites that have only physical hazards. Common mine features on these high-risk sites include deep unprotected surface openings, waste rock piles with acid rock drainage, and dilapidated buildings.

- *develop an operational and financial short- and long-term plan to clean up mine sites posing a threat to human health and safety or the environment (we made a similar recommendation in our* 2005 Annual Report*).*
  Status: Little or no progress.

Details

At the time of our 2015 audit, the Ministry did not have a current estimate of the total costs of, or a long-term plan for, rehabilitating physical hazards and contamination on all abandoned mine sites in Ontario.

Since our audit, the Ministry has created a short-term plan of work on only 44 abandoned mine sites. The Ministry plans to perform site assessments over the next three to four years to obtain the scientific data to develop a long-term plan to clean up sites that are posing a threat to human health and safety or the environment. The plan will be dependent on its annual budget allocations.

Recommendation 10

To ensure that the owners of privately held abandoned mines take all reasonable steps to reduce potential health and environmental risks, the Ministry of Northern Development and Mines (Ministry) should:

- *take timely follow-up actions to ensure that private owners are complying with Ministry inspection results;*
  Status: In the process of being implemented by September 2018.

Details

In our 2015 audit, we noted that the Ministry has rarely exercised its authority to issue orders to private owners to enforce compliance; instead, it relies on voluntary compliance by the private owners. In the five years preceding our audit, only three such orders were issued by the Ministry to force private owners to undertake rehabilitation work or to submit a closure plan, and only one charge was laid, resulting in a fine of about $10,000. As of May 2015, none of the issues identified in 17 inspection reports had been resolved. In fact, the Ministry had not followed up with 10 of the 17 private owners after the inspection reports were mailed to them.

Since our 2015 audit, the Ministry has improved its tracking system for inspection reports because now each follow-up action has a set compliance target date. This tracking system identified unrectified actions dating back as far as 2012. The Ministry is also in the process of acquiring software that will track and monitor actions to ensure that timely follow-up is occurring. The Ministry expects to start using this software by September 2018.

- *develop a strategy to make private owners aware of the requirement to rehabilitate abandoned mines on their land.*
  Status: Little or no progress.

Details

During our 2015 audit, the Ministry informed us that private mine owners are not always aware of the responsibility to rehabilitate their sites and submit rehabilitation reports. Although it was aware of this, the Ministry had not done everything to build awareness of the requirement to rehabilitate abandoned mines.

We noted that British Columbia promoted compliance with its rehabilitation requirements by performing outreach activities, conducting media campaigns, and developing guidelines and education materials to increase awareness, educate, and motivate voluntary compliance.

Since our 2015 audit, the only effort the Ministry has made to improve private owners' awareness of their responsibilities was to propose changes in the wording of letters sent to the private owners. The Ministry has just in July 2017 started to explore other communication strategies to promote private mine owner compliance.

Recommendation 11

The Ministry of Northern Development and Mines should:

- *update the information on abandoned mines in Ontario and their associated mine hazards in its Abandoned Mines Information System (AMIS);*
  Status: In the process of being implemented by December 2017.

Details

The Ministry developed and implemented the Abandoned Mines Information System (AMIS) in 1988/89 to create a centralized way to track all abandoned mines in Ontario. The purpose was to capture data about all known abandoned mines and their associated hazards so that the Ministry can prioritize these sites for rehabilitation.

Our 2015 audit noted that the information contained in AMIS was outdated because the information came primarily from site assessments completed in 1993 and 2000. The remaining information came from the limited inspections conducted by the Ministry.

Since our 2015 audit, the Ministry continued to update the AMIS system with additional information on 918 sites. With this update, the Ministry asserts that this brings them to an 80% completion level of information on known abandoned mines as of August 2016. The Ministry plans to complete updating the system with information on all known sites by December 2017.

- *improve the functionality in AMIS to identify sites for rehabilitation that pose the greatest risk to public health and safety, and to the environment.*
  Status: In the process of being implemented by December 2017.

Details

Another AMIS limitation our 2015 audit noted was that a key system function was not producing accurate information. The capability to rank sites according to a public safety and environment score did not function properly and was not being used.

Since our 2015 audit, the Ministry has been addressing this issue through the development of a standalone priority-scoring tool that will use AMIS data. This new tool will include enhancements to the screening criteria, including 15 prioritization questions to identify and rank the sites based on their potential risk to public health and safety and to the environment. The results of the new tool will feed into the Ministry's overall priority-ranking system. The Ministry said that the new priority-ranking tool will be in use as of December 2017.

Provincial Revenue from Mining Low in Relation to Significant Value of Mineral Resources Extracted

Recommendation 12

To ensure that Ontarians receive a fair share of the province's mineral resources while remaining competitive to attract mining investments to the province, the Ministry of Northern Development and Mines should:

- *review and update where necessary the province's current mining lease rate, mining profit tax, and diamond royalty regimes (we made a similar recommendation in our* 2005 Annual Report*);*
  Status: In the process of being implemented by March 2019.

Details

Our 2015 audit noted that, over the previous 20 years, the Province had collected less than 2% of the value of minerals extracted by mining companies. The tax system that had been in place since 2004 was one of the lowest in Canada. According to a 2013 University of Calgary research paper and its addendum, updated to 2015, Ontario's marginal effective mining tax rate was only 5.6%, considerably lower than the national average of 8.6%, as of September 2015.

The Ministry is performing a review of the Province's current mining lease rate and mining lands tax as part of the overall Mining Act Modernization. The Treasury Board Secretariat approved the review in 2016/17, and, as part of the review, the Ministry is researching fee structures in other provinces and consulting with other stakeholders. The Mining Act Modernization is expected to be completed by February 2018, with updated fees ready for announcement by fiscal year end 2017/18. The Ministry anticipates that the new fees could start as early as the 2018/19 fiscal year. Mining profit tax is not governed under the *Mining Act*.

Our 2015 audit also raised questions about the revenues collected through Ontario's only diamond mine. The Province had not undertaken a formal assessment of its diamond royalty regime since it was introduced in 2007. At the time of our audit, the mining company had extracted $2.5 billion worth of diamonds but paid less than 1% of the value of the diamonds extracted. The Ministry indicated that with the closure of the only diamond mine targeted for early 2019, it was not considering a change to the diamond royalty structure in the near future.

- *take timely collection actions for amounts owing that are in arrears (we made a similar recommendation in our* 2005 Annual Report*).*
  Status: Fully implemented.

Details

If payments of rents or taxes are not made, the Ministry has the right under the *Mining Act* to declare the privately owned land forfeited and to terminate the mining leases and licences. However, our 2015 audit noted that the Ministry had not taken timely action on collecting outstanding payments.

As of March 31, 2015, accounts receivable related to rent and taxes totalling $1.7 million had been in arrears for more than two years. The Ministry informed us that some of those properties had not been forfeited because of liabilities associated with mine hazards on the land.

Since our 2015 audit, the Ministry has updated its policies on invoicing and collections and, as of June 2017, amounts in arrears for more than two years were $2.3 million, of which $1.4 million is to be collected through a payment plan with the mining company, starting in October 2017.

Performance Measures Do Not Address Ministry Goals and Responsibilities

Recommendation 13

The Ministry of Northern Development and Mines should develop more comprehensive measures to assess its effectiveness in meeting its goals of developing the province's mining sector, while minimizing the impact of development on public health and safety, and on the environment, and regularly report to the public its progress in meeting its goals (we made a similar recommendation in our 2005 Annual Report*).*

Status: In the process of being implemented by March 2018.

Details

Our 2015 audit identified that the Ministry lacked performance indicators to assess its effectiveness in achieving the overarching goals and objectives in the *Mining Act*. In December 2016, the Ministry submitted performance measures to Treasury Board that are to be implemented in the 2017/18

fiscal year. These measures will collect and report data including:

- Ontario's percentage of all mining exploration spending in Canada;
- the percentage of decision makers who used the Ministry's geosciences products and services to support their mineral investment decisions;
- the percentage of participants in mineral development and/or exploration who state that Ministry services increased their understanding and compliance with their obligations under the *Mining Act*; and
- the percentage of Aboriginal Participation Funding recipients that show growth in their organizations and activities as a result of the funding.

The Ministry also is working on developing performance measures for all of its other programs required as part of the annual budget submission from all provincial ministries to Treasury Board. The Ministry expects to have its first set of performance measures completed by March 2018.

Chapter 1
Section
1.12

Ministry of Community and Social Services

SAMS—Social Assistance Management System

Follow-Up on VFM Section 3.12, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	3	3			
Recommendation 2	4	2	2		
Recommendation 3	2		2		
Recommendation 4	1	1			
Recommendation 5	2	2			
Total	**12**	**8**	**4**	**0**	**0**
%	**100**	**67**	**33**	**0**	**0**

Overall Conclusion

At the time of our follow-up, the Ministry of Community and Social Services (Ministry) informed us that, as of May 30, 2017, it had spent about $294 million on the Social Assistance Management System (SAMS) and installed three major upgrades to make the system more stable. The Ministry told us that, since 2016 and going forward, it expects to spend about $50 million per year to maintain SAMS. As of July 4, 2017, the Ministry has taken the necessary steps to implement 67% of actions we recommended in our *2015 Annual Report*. For example, since our last audit, the Ministry reviewed the backlog of help desk calls about potential new defects and reallocated its resources to prioritize fixing these defects. The Ministry also hired qualified staff to directly oversee consultants to ensure that they no longer report directly to other consultants.

The Ministry has made progress in implementing the remaining 33% of our recommended actions. For instance, the Ministry has developed a process to reconcile all benefit payment calculation errors generated by SAMS' defects so far. Going forward, the Ministry will use this process to reconcile new calculation errors caused by existing SAMS' defects. The Ministry also made progress in ensuring that consultants' work is assessed for efficiency and effectiveness by making some improvements to the way it monitors and tracks their performance. The Ministry is in the process of reviewing and updating the consultants' service performance to make further improvements in this area.

The status of actions taken on each of our recommendations is described in this report.

Background

Approximately 940,000 (900,000 in 2015) Ontarians in need receive social assistance because they are unemployed and/or have disabilities. Social assistance provides financial aid, health benefits, access to basic education, and job counselling and training to some people, with an objective of helping them become as self-sufficient as possible.

To help improve and modernize the administration and delivery of social assistance, the Ministry of Community and Social Services (Ministry) decided to replace its old information technology system with a new system known as the Social Assistance Management System (SAMS). In 2009, Curam Case Management System (now IBM) won the competition to supply the system. The government approved a project budget of $202.3 million and an initial deadline of November 2013 for the launch of SAMS. The launch date was changed several times because of delays and issues that arose, and SAMS was finally launched in November 2014, a year later than planned and about $40 million over budget.

About 11,000 Ministry and municipal personnel rely on SAMS to help them determine an applicant's eligibility for social assistance; calculate and distribute about $7.1 billion ($6.6 billion in 2015) in annual benefit payments; generate letters to inform people about their eligibility or changes to their benefits; and generate reports with information that the Ministry and municipalities need to manage social assistance programs.

At its launch, SAMS had a number of serious defects that caused numerous errors. For example, the system generated about $140 million in benefit calculation errors—$89 million in potential overpayments and $51 million in potential underpayments. As well, SAMS generated many letters and tax slips containing incorrect information. Some of these errors may never be resolved. At the completion of our 2015 audit, SAMS was still not functioning properly, requiring caseworkers to use time-consuming workarounds to deal with problems.

In March 2015, at an additional expense, the Ministry hired consultants to conduct a review of SAMS and put in place an integrated transition and business recovery plan. The Ministry also committed to working with municipal delivery partners on the ongoing improvement of SAMS. At the time of our audit, the Ministry did not anticipate SAMS would become fully stable until spring 2016 and, at the completion of our audit, it did not know what the final cost of SAMS would be.

Other significant findings from our audit included the following:

- Prior to launch, SAMS was not fully tested and the system performed poorly on the tests that were done. SAMS was also not piloted with data converted from the previous system because of delays. At launch, there were about 114,000 errors in client data that caused SAMS to generate incorrect results for client eligibility and benefit payments.
- Only some of the government-mandated payment testing was conducted and many serious payment-related defects were found after launch. According to the Office of the Provincial Controller, SAMS was the only computer system ever connected to the government's accounting system without passing government-mandated payment testing.
- The Executive Committee overseeing the development of SAMS assumed significant risk when it decided to launch the system, because it knew that SAMS did not meet the launch criteria developed by the Ministry. The Ministry launched SAMS anyway because it considered the risks of delaying to be greater than the risks of launching a system that was not fully ready.
- While the Executive Committee knowingly assumed some risks by launching SAMS, it was not made aware of key information, including that there were more serious defects

than reported, and that some crucial tests had produced worse results than reported.
- In the six months before launch, the testing team began reporting to the business project director instead of the technical project director. However, the business project director did not have an IT background or the required technical expertise.
- Ontario's Internal Audit Division proposed an audit of SAMS' readiness four months before launch. However, Internal Audit and SAMS' project leads could not agree on the scope of the audit and it was not performed.
- The Ministry did not properly oversee the external consultants; instead, consultants oversaw other consultants through most of SAMS' development. The vagueness in consultants' time reporting, and the lack of independent oversight during much of the project, made it difficult to assess how efficiently consultants were working.
- Training provided by the Ministry to caseworkers on how to use SAMS, prior to launch, was inadequate.
- As of July 31, 2015, there were still 771 serious defects identified in SAMS that had not been fixed. Our audit found that Ministry resources were not sufficiently dedicated to fixing defects. Also, there were likely additional defects that had not been identified because the Ministry had a backlog of complaints and problems that caseworkers had reported.
- Problems would persist in SAMS until defects are dealt with. It would remain difficult to use, continue to generate incorrect eligibility determinations and benefit payments, and continue to generate inaccurate reports that the Ministry and municipalities need to properly manage Ontario Works and the Ontario Disability Support Program. In addition, caseworkers would continue to have to use time-consuming "workarounds" to deal with these problems, taking away time from providing the full range of case-management services to clients.

In our 2015 report, we recommended that the Ministry review the backlog of information related to potential defects so that they could be prioritized for fixing; reconcile all benefit payment errors generated by SAMS to the eligible amounts clients should have received; ensure that consultants' work is assessed for efficiency and effectiveness; establish a knowledge transfer strategy for Ministry staff; and ensure that SAMS undergoes and passes all government-mandated payment testing.

The report contained five recommendations, consisting of 12 actions, to address our audit findings.

Status of Actions Taken on Recommendations

We conducted assurance follow-up work between April 1, 2017, and July 4, 2017, and obtained written representation from the Ministry of Community and Social Services (Ministry) on September 1, 2017, that it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Ministry Response to SAMS Problems Inadequate

Recommendation 1

In order to ensure that eligible individuals receive the level of social assistance and support to which they are entitled, and to eliminate, as best as possible, eligibility and benefit payment errors made by the Social Assistance Management System (SAMS), the Ministry of Community and Social Services should:

- *assign adequate resources to review the backlog of information related to potential defects so that defects can be prioritized for fixing;*
  Status: Fully implemented.

Details

During our 2015 audit, we found that the Ministry had a backlog of about 11,500 calls from the help desk which it had not reviewed. After SAMS launched, the Ministry provided other helplines for specific errors, but these also had a backlog of a few hundred unanswered calls when we finished our audit. Until these calls were reviewed, potential new SAMS' defects would remain unknown.

Since our audit, in October 2015, the Ministry hired an outside consulting firm to review the backlog of calls containing information about potential defects and prioritize the newly-identified defects for fixing. The consulting firm was also asked to provide recommendations on how the Ministry could streamline its process of reviewing help desk calls. By May 2016, the consulting firm finished its review and potential defects were prioritized for further investigation and fixing.

Based on the consultant's recommendations, the Ministry also streamlined its call review process. By February 2017, all information about potential and existing SAMS' defects was merged into a single database. Since then, information about potential new defects provided by callers is being logged into the database. This allows the Ministry to review and prioritize calls faster, as it can more easily reconcile information provided by callers about potential new defects with defects that it is already in the process of investigating or fixing. At the time of our follow-up, there was no backlog of calls to the help desk.

- *allocate its resources so that fixing of defects takes priority;*
  Status: Fully implemented.

Details

During our 2015 audit, we found that only external consultants (rather than Ministry staff) had the skills to fix serious defects, but they were spending less than half of their time (44%) doing so. The remaining 56% of their time was spent developing new enhancements to SAMS' functions, resolving ad hoc requests and transferring knowledge to Ministry staff.

Since our audit, the Ministry told us that it has allocated more resources to fixing defects and has installed three major SAMS' upgrades that fixed old defects. Based on time-tracking reports that we reviewed, by November 2016, Ministry staff and external consultants' time spent fixing serious defects increased by about 10%. In the database where the Ministry tracks the progress of defect fixing, we found that all of the old 771 serious defects were fixed by December 2016.

At the time of our follow-up, the Ministry was working on fixing 196 newly-identified serious defects. The Ministry told us that, going forward, fixing defects will remain a priority and that its staff and consultants will continue to spend about 50% to 65% of their time on it.

- *develop a process to reconcile all benefit payment errors generated by SAMS to the eligible amounts that clients should have received and ensure that they are corrected.*
  Status: Fully implemented.

Details

In our 2015 audit, we noted that serious defects in SAMS caused benefit payment calculation errors amounting to $140 million ($89 million in potential overpayments and $51 million in potential underpayments) but this only included defects that were fixed. The Ministry could only quantify the dollar-impact error of a defect once it was fixed because that is when SAMS automatically recalculated past incorrect benefits. For example, if SAMS incorrectly calculated the monthly benefit for a client as $570 when it should be $600, only when the defect is fixed would SAMS recalculate the amount and report that the client got $30 a month less than he or she should have.

The Ministry designed and implemented manual workarounds for this problem, so a caseworker may have already identified the error and circumvented the normal SAMS process to issue the

correct payment well before the Ministry fixed the defect. However, the Ministry could not confirm if workarounds were always applied by caseworkers; as a result, the Ministry did not know what portion of the approximately $140 million had already been corrected by caseworkers. Thus, allowing SAMS to adjust the $140 million of past incorrect benefits could reverse corrections made previously by caseworkers. In response to this, the Ministry suspended the adjustment of all benefit corrections calculated by SAMS, and told us it was planning to have caseworkers manually review such corrections—starting at an unspecified time in the future.

Since our audit, between November 24 and December 18, 2015, an external consulting firm hired by the Ministry reviewed the $140 million in benefit calculation errors and identified that there was a possibility that—for about $59 million of the errors—caseworkers might not have applied workarounds and clients could have ended up receiving incorrect benefit payments. The consulting firm recommended a process to investigate and fix these calculation errors. As part of this process, in March 2016, the Ministry communicated to all caseworkers a list of recommended actions to investigate and fix the calculation errors for which workarounds might not have been applied. Between June and December 2016, based on a recommendation from the consulting firm, the Ministry sampled 61% of the $59 million calculation errors to check if they were correctly handled. At the time of our follow-up, the Ministry told us that all of the calculation errors in its sample were fixed and that clients ended up receiving correct benefit amounts. As part of our follow-up, we reviewed the process used by the Ministry to investigate and fix the benefit calculation errors and conducted our own sample of calculation errors from the $59 million. In all of our samples, we found that the errors were fixed and clients were paid correctly.

Going forward, the Ministry will continue to use its current process for investigating and fixing defects to ensure clients are paid the right benefit amounts.

Consultant Work Inadequate, Not Properly Overseen by Ministry

Recommendation 2

To prevent unnecessary delays in bringing the Social Assistance Management System (SAMS) to full and effective functionality, and to ensure that the consultants still working on SAMS are held accountable for delivering quality results, the Ministry of Community and Social Services should:

- *assign its own properly qualified staff to directly oversee consultants;*
  Status: Fully implemented.

Details

Our 2015 audit found that the Ministry did not properly oversee Curam and IBM consultants. It relied on the consultants not only to design and develop most of SAMS, but to also oversee their own work. Consultants billed an average hourly rate of $190 and were overseen by other consultants who were paid daily rates as high as $2,000. Many consultants took much longer than anticipated to complete their work, and, in some instances, billed for time spent on fixing errors in their own work.

Since our audit, between December 2015 and April 2016, the Ministry has hired nine full-time qualified staff to replace consultants in lead positions who oversaw the work of other consultants. Information provided to us by the Ministry showed that all major areas of SAMS, including software development, system upgrades installation and testing, are now led and overseen by full-time Ministry staff.

In January 2016, the Ministry also improved its oversight of consultants by requiring them to submit their timesheets on a weekly basis instead of monthly. On their timesheets, consultants must now provide more details about the work that they performed and full-time Ministry staff are responsible for reviewing and signing off on all submitted timesheets before consultants are paid.

At the time of our follow-up, the Ministry also confirmed that none of the Curam and IBM consultants currently involved in lead roles on SAMS oversee the work of other consultants and that all consultants are directly supervised by full-time Ministry staff.

- *ensure that consultants' work is assessed for efficiency and effectiveness;*
  Status: In the process of being implemented by fall 2017.

Details

During our 2015 audit, we found that, between November 2013 and March 2014, Curam billed the Ministry 11,500 hours, at an average rate of $190 per hour, for work that was estimated to take about 10,300 hours, indicating that they were working inefficiently. While the Ministry received timesheets from Curam and IBM, it was not assessing if consultants worked efficiently or effectively.

Since our audit, the Ministry has made some progress toward assessing consultants' work. In fall 2016, the Ministry developed better system testing reports and, together with the new merged defects database implemented in February 2017, was able to track more detailed information about potential and existing SAMS defects. This information allows the Ministry to investigate if a defect was caused by consultants' poor workmanship. The Ministry has also begun to set targets for the number of defects consultants should be able to fix within a specified time and told us that it monitors consultants' progress against those targets on a weekly basis. The warranty period for consultants' work has also been extended from 150 to 180 days and a new contract clause has been added that requires consultants to fix defects or other SAMS problems that were caused by their poor workmanship at their own cost.

At the time of our follow-up, the Ministry told us that it is in the process of reviewing its contract with consultants. As part of the review, the Ministry wants to include in the contract a more defined description of service performance levels and a requirement that consultants report on meeting these performance levels. The Ministry also wants to introduce additional financial consequences to consultants if they fail to meet their contractual performance levels. This review is expected to conclude in fall 2017, at which time the Ministry will determine what changes are necessary.

- *on future projects, work towards reducing its dependence on consultants, and ensure consultants' knowledge is transferred to ministry staff.*
  Status: First part of recommendation is fully implemented; second part of recommendation is in the process of being implemented by March 31, 2018.

Details

At the time of our 2015 audit, we found that the Ministry still relied heavily on Curam consultants to fix serious defects and that it did not ensure that Curam consultants transferred their knowledge to Ministry staff.

Since our audit, the Ministry has hired new staff and transferred staff from other departments to fill about 30 new full-time positions to perform work on SAMS that was previously done by consultants. The Ministry is also spending less on consultants, from about $20 million in 2015/16 to $12.5 million in 2016/17. At the time of our follow-up, the Ministry told us that it was on track to reduce its spending on consultants by another $1.5 million to about $11 million in 2017/18.

In May 2017, the Ministry made a submission to Treasury Board Secretariat to convert more consultant positions into Ministry positions (including 12 full-time positions) working on SAMS. The Government has approved the Ministry's submission. The Ministry also told us that it is in the process of developing a new strategy to manage its resources, which includes knowledge transfer on SAMS. The strategy is being developed specifically for SAMS in response to **Recommendation 3** in our 2015 audit. Although, at the time of our follow-up, the Ministry had no imminent plans to launch a new major information system or to replace SAMS, it told us that the strategy will provide a blueprint for knowledge

transfer on future IT projects. Completion of the strategy is expected in March 2018.

Recommendation 3

In order to ensure that ministry staff can help fix all defects in the Social Assistance Management System (SAMS) in the short term, and maintain SAMS in the long term after consultants have left, the Ministry of Community and Social Services should:

- *establish a knowledge transfer strategy for ministry staff which includes outcome targets based on achieving learning objectives;*
  Status: In the process of being implemented by March 2018.

Details

Our 2015 audit found that the Ministry did not ensure that Curam consultants transferred their knowledge to its own staff before launch and the Ministry relied heavily on Curam consultants to fix serious defects as only they, not the Ministry, had the skills to do so.

Since our audit, in spring 2016, the Ministry implemented a formal mentorship program where Ministry staff are paired with consultants and a formal knowledge transfer agreement is developed. We reviewed some of the agreements and found that they included a detailed knowledge transfer plan, which listed outcome targets and timelines for achieving specific learning outcomes.

As previously discussed, the strategy the Ministry is developing to manage its resources also includes knowledge transfer on SAMS. The knowledge transfer strategy covers specific areas, such as knowledge transfer tools, and sets specific levels for staff learning and development. The Ministry expects to complete its strategy in March 2018.

- *assess and document the progress in achieving these targets.*
  Status: In the process of being implemented by March 2018.

Details

During our 2015 audit, we noted that, although the Ministry's staff of 11 developers were becoming more knowledgeable, they were only slowly learning to fix even minor problems. The Ministry still relied heavily on Curam consultants to both develop and fix serious defects in SAMS.

Since our audit, in September 2016, the Ontario Internal Audit Division stated in its report on SAMS that the Ministry's assessment and documentation of knowledge transfer was incomplete. At the time of our follow-up, the Ministry told us that it developed a knowledge transfer plan in 2016 to assess and document (on an aggregate basis) its progress in achieving knowledge transfer targets. However, the documentation of knowledge transfer activities outlined in the plan has not been completed. The Ministry told us that the main reason for that is the fact that it was focused on fixing SAMS' serious defects as soon as possible; however, now that the system has become more stable, the Ministry will begin to educate its staff on the importance of properly completing knowledge transfer documentation. This education will be conducted as part of the mentorship program beginning in fall 2017, and the Ministry plans to make it part of its knowledge transfer strategy. The Ministry told us that it expects that knowledge transfer documentation will improve by March 2018.

Ministry Overly Optimistic about SAMS' Readiness for Launch

Recommendation 4

To ensure that the Social Assistance Management System (SAMS) reaches the high level of performance intended and that it functions in compliance with government requirements, the Ministry of Community and Social Services should ensure that SAMS undergoes and passes all government-mandated payment testing.

Status: Fully implemented.

Details

Since 2005, the government has mandated that the computer system for any program that provides payments must pass certain tests to ensure that payments and cheque stubs are accurate. In our 2015 audit, we found that SAMS interfaces with the government's accounting system to make benefit payments, so it should have undergone the mandatory testing. However, when SAMS was launched, it was not in stable enough condition for the government's Enterprise Financial Services and Systems Division (EFSS) to perform all of the required tests. We also found that SAMS was required to undergo the same government-mandated payment testing whenever major software upgrades were installed. Although SAMS had been upgraded several times, we found in 2015 that these tests were not performed.

At time of our follow-up, the Ministry informed us that, in July 2016, it formalized a process for ensuring SAMS undergoes government-mandated payment testing when major software upgrades are installed. Since that time, the Ministry has installed four major upgrades, and provided us with documentation signed off by EFSS that all required testing was conducted.

Recommendation 5

In order to improve the decision-making process used to launch a major information system, the Ministry of Community and Social Services should:

- *ensure that the decision to launch an information technology system is based on relevant criteria and information that provides decision-makers a complete and accurate status of system readiness;*
  Status: Fully implemented.

Details

During our 2015 audit, we found that SAMS had 737 serious defects, but that project staff told the Executive Committee that SAMS had 418 serious defects. Ministry staff explained to us that the remaining 319 serious defects were not shared with the Executive Committee because they had started developing solutions or fixes for them. Of the 418 defects reported to the Executive Committee, project staff advised that 217 of them could be handled by just 27 workarounds. No workarounds had been devised for the other 201 serious defects. We also found that the Executive Committee did not know:

- that project staff did not test 11 of 85 interfaces;
- that not all required payment tests were conducted or conducted testing was incomplete;
- the number of actual case discrepancies due to defects; and
- that converted data was not fully tested.

In May 2015, the Ministry updated its policies on what information should be shared with the decision-makers and told us that it has been providing them with a complete and accurate status of SAMS each time it installs new major system upgrades.

At the time of our follow-up, the Ministry told us that it had no imminent plans to launch a new major information system or to replace SAMS but that, in the future, it will review and update its current policies to ensure that the decision to launch a new system is based on relevant criteria and that decision-makers are provided with complete and accurate information about the status of system readiness. The Ministry said that these changes will be made during the initiation of the next major information system launch to ensure that the recommendations are followed throughout the project lifecycle.

- *have Internal Audit independently review key information used in assessing the system's state of readiness while making the decision to launch.*
  Status: Fully implemented.

Details

Our 2015 audit found that, while Internal Audit did conduct audit work on the SAMS project, the last report it issued was in November 2013, a full year

before SAMS was launched. Four months prior to the launch, Internal Audit met with SAMS' project leads to propose an audit of SAMS' readiness for launch, but they could not agree on the scope of the audit. Internal Audit told us that the Ministry believed the IBM consultants on the project team had the necessary expertise to assess SAMS' readiness. The Ministry therefore suggested that Internal Audit's scope of work should focus on SAMS after launch.

At the time of our follow-up, the Ministry provided us with documents showing that, on July 12, 2017, it made a mandatory policy to request that Internal Audit independently review key information used in assessing a major system's state of readiness for launch. The Ministry also told us that, in September 2016, Internal Audit assessed the progress of the Ministry's efforts in also responding to recommendations and advice provided by an external consultant in addressing SAMS' post-implementation issues.

Ministry of Education

Student Transportation

Follow-Up on VFM Section 3.13, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of Actions Recommended	Status of Actions Recommended			
		Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2	1	1		
Recommendation 2	1		1		
Recommendation 3	3		1	2	
Recommendation 4	1				1
Recommendation 5	4	1	2	1	
Recommendation 6	2			2	
Recommendation 7	1	1			
Recommendation 8	3		1	1	1
Recommendation 9	1	1			
Recommendation 10	1			1	
Recommendation 11	2			2	
Recommendation 12	7	3	1	3	
Recommendation 13	1				1
Recommendation 14	1				1
Recommendation 15	1				1
Total	**31**	**7**	**7**	**12**	**5**
%	**100**	**23**	**23**	**38**	**16**

Overall Conclusion

According to the information the Ministry of Education, Ministry of Transportation and school board transportation consortia provided to us, as of August 8, 2017, 45% of actions we recommended in our *2015 Annual Report* had either been fully implemented or were in the process of being implemented. Little progress was made on implementing 39% of our recommendations, and 16% would not be implemented.

For recommendations directed at the Ministry of Education, 20% were either fully implemented or in the process of being implemented, 40% had little or no action and 40% would not be implemented. Specifically, the Ministry informed us that it will not be implementing recommendations requiring it, in connection with school boards and transportation consortia, to develop consistent safety policies

for the transport of students, set standards for optimal utilization of school vehicles, clarify the roles of each body in setting eligibility and employing efficiency measures, and develop standard criteria for selecting school bus operators. According to the Ministry, its role is to provide transportation funding to school boards, and the role of school boards is to decide whether to provide those services and to set policies to guide the provision of those services. It further added that the Ministry has no legal mandate to impose specific transportation policies on school boards.

We obtained a legal opinion on this matter and were advised that school boards are subject to the legal authority of the Ministry of Education. The Minister of Education has specific power to legislate and regulate the transportation of students, and, therefore, has the legal authority to require school boards to implement our recommendations.

For recommendations directed at the Ministry of Transportation, 50% were either fully implemented or in the process of being implemented, 42% had little or no action and another 8% would not be implemented. More action was required to ensure information in the Commercial Vehicle Operator's Registration system provides safety information on local terminals of school bus operators, and a strategy is devised to conduct risk-based reviews of motor vehicle inspection stations.

For recommendations directed at transportation consortia, 67% were either fully implemented or in the process of being implemented, and 33% had little or no action. More action was needed by some consortia to increase efficiency and, in turn, decrease costs of transportation services.

The status of action taken on each of our recommendations is included in this report.

Background

In the 2015/16 school year, about 830,000 Ontario students were transported daily to and from publicly funded schools on approximately 19,000 school vehicles. More than 70% of the children transported were in kindergarten or elementary school (similar to 2013/14).

The *Education Act* does not explicitly require school boards to provide transportation services, but every board provides some level of transportation services to students. Transportation grants for the 2016/17 school year were estimated to be $897 million ($880 million in the 2014/15 school year). Almost all student transportation in Ontario is provided through contracts with school bus operators.

Five parties are involved in student transportation:

1. The Ministry of Education provides funding to the 72 school boards and conducts an annual survey of the boards. The Ministry gives the boards authority for overall decisions, including policies and eligibility criteria.
2. Thirty-three transportation consortia formed by the school boards plan transportation services and contract with school bus operators, manage their contracts and monitor performance.
3. School boards oversee the consortia and provide them with key information about their schools and students. The boards determine which groups of students they transport and spend their funding on (based largely on the distance between home and school).
4. School bus operators are contracted by consortia to transport students. They are required to ensure their vehicles and drivers meet legislated safety requirements, and to comply with contract provisions such as safety training for drivers and students, and background checks for drivers.
5. The Ministry of Transportation enforces federal and provincial laws and regulations for the design and mechanical condition of vehicles, licensing of drivers and safe operation of vehicles.

In our *2015 Annual Report*, we noted that school vehicles were generally considered a safe mode of

transportation based on the number of collisions in relation to the number of passengers transported and kilometres travelled. The Ministry of Transportation had reported that from the 2008/09 to the 2012/13 school year, school vehicles had been involved in 5,600 collisions that had resulted in property damage, personal injuries and fatalities.

Overall, in Ontario, the risk of personal injury from collisions involving school vehicles was lower than for other types of vehicles, and the risk of fatalities was similar to that for all other types of vehicles. However, in 2013, the latest year for which information was available at the time of our audit, Ontario's school vehicles were involved in more collisions proportionately than automobiles and trucks, but fewer than other types of buses, based on total number of vehicles by type. Police determined that the school bus driver was at fault in 40% of cases.

Nevertheless, the potential of risk to students being transported made it important that the Ministry of Education, school boards and transportation consortia, and the Ministry of Transportation continue to consider and minimize risk factors in three key areas that impact the safe transport of students: bus driver competence, vehicle condition and student behaviour.

Based on our 2015 audit, we concluded that better oversight of bus operators and their drivers, better processes for ensuring the safe operation of school vehicles, better training for students in bus safety, and better tracking and analysis of collisions and incidents may even further reduce risks to students.

Specific observations regarding the safe transport of students included the following:

- Better oversight and monitoring were needed by the consortia to ensure school bus driver competence.
- The Ministry of Education had not set guidelines for the reporting of school vehicle collisions and incidents. Only limited information was being tracked by consortia on incidents impacting students, such as late buses and mechanical breakdowns of vehicles, that could be used to identify the causes and develop strategies to prevent them. With the limited information available to us during our audit, we noted a 67% increase in such incidents between 2012/13 and 2013/14, from almost 35,000 incidents to nearly 58,000 incidents.
- Improvements were needed by consortia and the Ministry of Transportation in ensuring school vehicles were in good condition. For example, inspections conducted by the Ministry of Transportation did not target those vehicles most at risk for safety violations, were not always done on time, and did not always ensure that defects were fixed.
- There was little oversight of school bus operators, who are allowed to certify their own buses for mechanical fitness.
- The Ministry of Education had not mandated bus safety training for students. Only 16 of the 33 consortia had mandatory general school bus safety training.

Ontario had no provincial standard for busing. We found that busing was not available on an equal basis to students across the province or even in schools within the same board. We also saw differences in how consortia operated and managed busing services. The ability of a consortium to efficiently and effectively manage transportation services was impacted by the level of authority delegated by the school boards it serves and the willingness of school boards to work co-operatively and integrate services.

Our specific observations in the area of efficient transportation of students, the level of service provided, funding and procurement practices, included the following:

- Funding for school transportation was not based on need, but instead on each board's 1997 spending level, with annual adjustments. The Ministry of Education's funding formula did not take into account local factors that significantly influence transportation costs.

- The Ministry of Education had not determined if the wide variances among boards in the cost of transporting students were justified.
- Reliable bus utilization data was not available. Consortia we visited did not typically track the number of riders. As well, each set its own capacity for a bus and used different methods to calculate the utilization rate.
- Consortia were contracting for more bus services than they need.

In total, we made 15 recommendations, consisting of 31 actions, and received commitments from the ministries and transportation consortia that they would take action to address them.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and August 8, 2017, and obtained written representation from the Ministry of Education, the Ministry of Transportation and three school board transportation consortia—Toronto Student Transportation Group (Toronto), Sudbury Student Services Consortium (Sudbury) and Student Transportation of Peel Region (Peel)—on September 8, 2017, that they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Oversight Processes for Safety Can Be Improved

Recommendation 1

The transportation consortia in conjunction with school boards should:

- *develop and conduct consistent and effective oversight processes for school bus operators to confirm their compliance with contract and legal requirements for driver competence and vehicle condition;*

Status: Toronto consortium: Fully implemented.
Peel consortium: Fully implemented.
Sudbury consortium: Fully implemented.

Details

Toronto: Operational reviews were being conducted at the time of our 2015 audit. The consortium expanded its operator audit form in April 2017 to include additional review items in the areas of operations, safety and planning in order to satisfy the legal and contractual requirements. Consistent forms are used for the operational review (checklist consisting of operational, safety and planning criteria), bus audit (a sample of buses to check for required documentation, log book and safety equipment), and driver file review (a sample of drivers for required training). A follow-up review is done a month later for any outstanding audit items.

Peel: The consortium has developed a checklist system to be used in its operators' audits to ensure a consistent approach to measure each operator's performance and compliance. One of the checklists that is now required is the Random Vehicle File Check List, which consists of selecting vehicles at random and reviewing their annual and semi-annual inspection certificates for the past two years to confirm that they have passed Ministry of Transportation inspections. If not, the operator will be required to produce a copy of the vehicle's inspection and log book to confirm that it was not used during any of the non-compliant periods identified. This new process came into effect May 2017.

Sudbury: The consortium has revamped its Operator Audit Policy as of November 2016 to include compliance with contract and legal requirements for driver competence and vehicle condition. The consortium has created an annual contract compliance audit checklist, which evaluates the compliance of each contract requirement.

- *track the rate of bus driver turnover, along with accidents and incidents such as dropping students at the wrong stop, to help determine*

if there is a link between driver turnover and safety risks, and if action is needed.

Status: Toronto consortium: In the process of being implemented by August 2017.

Peel consortium: In the process of being implemented by June 2018.

Sudbury consortium: In the process of being implemented by July 2018.

Details

Toronto: In September 2016, the consortium expanded the key performance indicators that its school bus operators report to include driver turnover, number of collisions and number of incidents. The consortium expected to start analyzing this information by August 2017 to determine if there is a link between driver turnover and safety risks.

Peel: Starting in November 2016, the consortium updated its accident reporting data to include the driver's name and years of experience. Additionally, it tracks the number of resignations on a weekly basis, along with the number and nature of accidents and incidents in the weekly report submitted by school bus operators. Incidents where students are dropped off at the wrong stop are not tracked in the weekly report, but instead are tracked manually and followed up on with the bus operator. Analysis of this data had not yet begun at the time of our follow-up. The consortium expects to start analyzing the data by June 2018, as it moves toward online reporting.

Sudbury: The consortium started to track the rate of bus driver turnover, as well as collisions relating to bus drivers' years of experience, in the 2016/17 school year. It also started to track incidents in relation to bus driver experience in March 2017. The consortium expects to have this data analyzed and summarized by the end of the 2017/18 school year.

Recommendation 2

To help promote good practices and safe driving by drivers of school vehicles, the Ministry of Transportation should monitor the delivery of the School Bus Driver Improvement Program and review its effectiveness.

Status: In the process of being implemented by July 2019.

Details

During our audit, we found that the Ministry of Transportation had not ensured that school bus operators or third parties had developed and delivered the School Bus Driver Improvement Program in conformity with the standards set by the Ministry. Nor had the Ministry reviewed the effectiveness of the program to determine whether it had made an impact on safety in the industry.

At the time of our follow-up, the Ministry had developed a plan to monitor the School Bus Driver Improvement Program. The monitoring is expected to consist of an initial attestation by course providers, followed by the submission of third-party audit reports to the Ministry on an ongoing, cyclical basis. The implementation date for this new process was July 1, 2017, and the first audit reports are due to the Ministry in July 2019.

Recommendation 3

In order for the Commercial Vehicle Operators' Registration program (CVOR) to effectively track the on-road performance of school buses and trigger ministry intervention when school bus operators' ratings reach unacceptable levels, the Ministry of Transportation should:

- *ensure that safety infractions are updated in the CVOR in a timely manner and that these are reflected in the operator's safety rating for the full 24 months from the time the infraction is input into the system;*

  Status: Little or no progress.

Details

During our audit, we found that the safety ratings for school bus operators were not always up to date. Half of the safety violation convictions took at least 83 days to appear in the safety rating, and half

of the collisions took at least 105 days to appear. Moreover, violations that were challenged in court were not reflected in the operator's rating unless the operator was convicted.

According to the Ministry, the CVOR system monitors the on-road safety performance of registered carriers by tracking collisions, convictions and inspections over a 24-month period, as established by national agreement. This common system exists to ensure reciprocity among Canadian jurisdictions in the rating and treatment of carriers, as well as to ensure a consistent regulatory framework for the country.

The Ministry informed us that, since our audit, it has raised our concerns regarding having safety infractions appear on the safety rating for a full 24 months with federal and provincial partners, and would continue to raise these concerns at the national level.

- *ensure that information in the CVOR is easy to interpret and provides safety information on local terminals of school bus operators;*
  Status: Little or no progress.

Details

During our audit, we reported that CVOR safety ratings were of limited use to transportation consortia in helping them assess the safety records of locally contracted school bus operators. This was because the ratings consolidated safety information for all of an operator's locations and for all of its commercial vehicles of every type, including vehicles not used for transporting students.

In March 2016, the Ministry implemented a new registration and licensing system for monitoring carriers in the CVOR program. Although the new computer system included revisions to the format for presenting information relating to driver safety, it continues to present consolidated safety information by operator, instead of by location and types of commercial vehicles operated. At the time of our follow-up, the Ministry had no plans to present safety information by school bus terminal and stated that its Bus Inspection Tracking System provides more detailed safety information on school bus terminals than the CVOR. However, in our opinion, it does not provide the same level of safety information as the CVOR, as it does not include drivers' traffic violations, collisions and audits at the operator's place of business.

- *consider ways to verify the accuracy of self-reported information on the number of vehicles in the operators' fleets and the number of kilometres driven.*
  Status: In the process of being implemented by September 2017.

Details

During our audit, we noted that operators self-report the distances their buses are driven; hence, there was a risk they could manipulate the numbers to obtain a more favourable safety rating.

The Ministry informed us that the new registration and licensing system contains built-in mechanisms that prompt the operator to validate the information when self-reported fleet information and travel distances are outside of expected ranges. The Ministry also informed us that it is in the process of implementing by September 2017 an online channel that allows updates to fleet and distance information for carriers.

Recommendation 4

To help increase the safety of school transportation, the Ministry of Transportation should consider changing the threshold that triggers a facility audit for school bus operators.

Status: Will not be implemented.

Details

In our 2015 report, we reported that the Ministry of Transportation was not auditing or inspecting all school bus operators' facilities on a regular basis. To illustrate, during a five-year period, the Ministry had conducted only 24 facility audits on 19 school bus operators. Few school bus operators reached the threshold that triggered an audit.

At the time of our audit, the Ministry said it would do further analyses and establish an intervention protocol specific to school bus operators based on the operator's safety performance.

During our follow-up, the Ministry informed us that it will not be implementing this recommendation because, based on a 2007 Transport Canada fact sheet, school bus travel is one of the safest methods of travel for children and youth. In addition, the Ministry says that the new registration and licensing system lets it monitor effectively all carriers, including school bus operators, for trend and behavioural changes through its CVOR program. For example, new triggers have been added that will cause a carrier to be reviewed for significant on-road events such as vehicle impoundments and convictions. We believe, however, that this action by the Ministry will likely not increase the number of school bus operators' facilities audited, and we continue to support the implementation of this recommendation to further increase the safety of school transportation.

Recommendation 5

To increase the effectiveness of its safety inspections of school buses at operators' terminals, the Ministry of Transportation (MTO) should:

- *update and maintain its Bus Inspection Tracking System with complete and accurate information on the location of operators' terminals and school vehicles at each terminal;*
  Status: In the process of being implemented by December 2018.

Details

In our 2015 audit, we found that the Ministry's Bus Inspection Tracking System contained inaccurate information on the location of operator terminals for nearly 50% of the operators we sampled. As well, we found that the number of vehicles recorded in the Ministry's system was less than the number of school vehicles contracted by transportation consortia.

In November 2016, the Ministry of Education provided a list of known school bus operators to the Ministry of Transportation for comparison with information contained in the Bus Inspection Tracking System. In March 2017, the analysis was completed and discrepancies were assigned to the appropriate district offices for follow-up and verification by July 2017.

In addition, the Ministry of Transportation informed us that it has begun to modernize the Bus Inspection Tracking System platform. This work is scheduled for completion by the end of December 2018.

- *have inspectors focus on school buses considered to be high risk and those that have not been inspected recently;*
  Status: Fully implemented.

Details

During our 2015 audit, we noted that the Ministry had inspected more newer buses and fewer older buses than required under Ministry policy, for more than 30% of operators tested.

The Ministry informed us that the latest annual refresher training for inspectors took place in May 2017. This training emphasized following procedures as outlined in the Bus Inspection Manual for selecting buses to inspect and the timing of inspections. Officers were also given refresher training on internal policies for following up on defects found and issuing repair verification notices. In addition, we were told that managers and regional managers are expected to regularly discuss operational policies with staff.

- *complete safety inspections of school buses within the time frames stipulated by MTO's risk-based inspection approach;*
  Status: In the process of being implemented by December 2018.

Details

In 2015, we found that more than 90% of school bus inspections we sampled were not completed

within the time frames stipulated by the Ministry's risk-based inspection approach.

At the time of our follow-up, the Ministry was putting in place a new protocol to validate the status of inspections specifically for school bus operators. According to the protocol, quarterly meetings with all district enforcement managers will be scheduled to verify inspection status and ensure timely inspection of school bus operators. The Ministry confirmed that, as of August 2017, several school bus operator terminals were overdue for inspection. The Ministry informed us that, as school bus operators are typically not open in the summer months, it has assigned officers to complete the required terminal inspections in September 2017 when they reopen. The Ministry expects to fully implement this recommendation by December 2018.

- *obtain evidence that violations or infractions noted during school bus inspections are rectified in a timely manner by a school bus operator.*
  Status: Little or no progress.

Details

During our 2015 audit, for two-thirds of inspections with violations or serious infractions we sampled, there was no documented evidence that repairs were made or that a repair verification order had been issued requiring the operator to make a repair.

As part of the annual refresher training course for inspectors in May 2017, Ministry inspection officers were trained on internal policies for following up on defects found and issuing repair verification notices. However, at the time of our follow-up, the Ministry was not tracking whether violations or infractions noted during school bus inspections were being rectified on a timely basis.

Recommendation 6

To ensure that Motor Vehicle Inspection Stations (MVISs) are conducting effective mechanical inspections, the Ministry of Transportation should:

- *devise a strategy that enables it to conduct risk-based reviews of MVISs, especially those that are run by school bus operators licensed to inspect their own school vehicles;*
  Status: Little or no progress.

Details

In our 2015 audit, we found that the Ministry provided little oversight of MVISs to ensure that they conducted thorough mechanical inspections. This oversight was important since many school bus operators also owned their own MVIS, which they could use to conduct the required mechanical inspections of their own fleet of vehicles.

Since our audit, the Ministry system that supports the MVIS program has been upgraded to allow it to readily identify commercial vehicle operators, including school bus operators, who are also licensed to have an inspection station. At the time of our follow-up, the Ministry informed us that it was reviewing the MVIS program for ways to improve it, but had not yet made any decisions on changes to program delivery.

- *require the MVIS to submit its results of annual and semi-annual inspections for tracking in situations where concerns are identified, as confirmation that its school vehicles have undergone the necessary mechanical inspection.*
  Status: Little or no progress.

Details

During our audit, we found that the Ministry had very little assurance that all school vehicles had undergone the required mechanical inspections.

As noted above, the MVIS program was still being reviewed, and no decisions on changes to the program's delivery had been made at the time of our follow-up.

Recommendation 7

The Ministry of Transportation, in conjunction with the Ministry of Education, school boards and transportation consortia, should develop a protocol

to share information on the results of their inspections and audits of school bus operators and motor vehicle inspection stations, and collision information. This will help facilitate timely action to enforce the safety of school transportation services throughout the province.

Status: Fully Implemented.

Details

During our 2015 audit, we found that there was no protocol for information sharing between the Ministry of Transportation, school boards, transportation consortia and the Ministry of Education, nor did the Ministry of Education receive or request reports or specific information regarding school bus safety from these other participants.

Since the audit, a Ministry of Transportation representative has met regularly with consortium managers at the Ontario Association of School Business Officials Transportation Committee. At these meetings, the Ministry of Transportation representative acts as a subject matter expert, providing guidance on enforcement and compliance. The Ministry has also stressed to consortia the importance of the information contained in the CVOR level 2 abstract, and on a one-on-one basis addresses concerns with specific operators.

Recommendation 8

To improve student transportation safety, the Ministry of Education, in conjunction with school boards and transportation consortia, should:

- *develop consistent safety policies for the safe transport of students and for dealing with behavioural issues on the bus;*

  Status: Will not be implemented.

Details

During our 2015 audit, we found that policies regarding the safe transport of students varied at each consortium we visited.

According to the Ministry, it has no legal mandate to impose specific transportation policies on school boards, but has taken some actions to support them in developing consistent safety policies. These are described below.

In March 2016, the Ministry surveyed consortia in Ontario regarding behavioural incidents that have occurred on school buses (30 consortia responded). The survey found that only one-third (11) of the respondents track the number of behavioural incidents. For these consortia, the combined number of reported behavioural incidents increased from 7,774 in 2013/14 to 10,529 in 2014/15. The survey also found that 29 consortia reported having policies regarding student conduct/behaviour on school buses; 23 consortia indicated that schools (principals or delegates) are ultimately responsible for disciplining students (for example, suspension from the bus or from classes); and only two-thirds of consortia (20) indicated that the necessary follow-up or disciplinary actions were enforced often or always, whereas one-third indicated that follow-up actions were enforced sometimes.

At the same time, the Ministry also sought feedback on behavioural incidents on school buses from school bus operators. On behalf of the Ministry, the Ontario School Bus Association (OSBA) surveyed its operators and found that 87% of responding school bus operators reported fairly serious unruly student behaviour on school buses. The OSBA also stated that in most cases the principals took action, but in many cases, such as if they feared it would affect a student's enrolment, they did not act. In some instances parents undermine the principal's actions by complaining to superintendents, trustees or the media. The OSBA also stated that when unruly student behaviour is not addressed by the schools, it leads to drivers quitting, which further intensifies the overall shortage of drivers.

The Ministry met with the Minister's Principal Reference Group (a consultative body composed of 20 principals and vice-principals) in March 2016, and with the committee of transportation consortium managers on June 2016, to present the findings and issues identified.

In October 2016, in the lead-up to School Bus Safety Week, the Deputy Minister sent a memo to

all Directors of Education reinforcing the fact that the provincial requirements on the code of conduct and reporting serious incidents apply on the school bus. It informed principals, especially new principals, that the school bus is an extension of the classroom and that they should address behaviour incidents that occur on the bus in the same manner as incidents that occur in the school.

In November 2016, the Ministry convened an ad hoc transportation safety committee to discuss the safety-related recommendations we made in our *2015 Annual Report*. The committee was composed of stakeholders including Ministry of Education and Ministry of Transportation staff, senior school board officials, transportation managers, and representatives from the two school bus operator associations (the Ontario School Bus Association and the Independent School Bus Operators Association). The Ministry updated the committee on its actions to date on student behaviour on the bus, including the survey results from the consortia, and feedback from the Ontario School Bus Association and the Minister's Principal Reference Group.

In March 2017, the Ministry contacted both bus operator associations to ask whether they would be interested in establishing a data collection mechanism for school bus operators to report on behaviour incidents and provide an annual summary report to the Ministry, consortia and school boards. The bus operator associations agreed to do so and the Ministry expects to follow up with them in fall 2017.

- *identify or develop mandatory training programs and standard information packages for students on school bus safety, and ensure that this training is delivered consistently to all students across the province; and*

  Status: In the process of being implemented by September 2018.

Details

During our 2015 audit, we found variations at the three consortia we visited in the information and the training programs offered to students on school bus safety. In addition, only some consortia made their safety programs mandatory for school bus riders.

According to the Ministry, it has no legal mandate to impose specific transportation policies on school boards, but has taken some actions to support the sector in standardizing school bus safety training.

In October 2016, the Ministry engaged the Ontario Education Collaborative Marketplace (OECM), a group procurement organization, to explore opportunities to procure school bus rider safety videos and on-site school bus safety training modules, which will be available to all school boards as a standard program. In March 2017, the OECM contracted with a service provider to produce three school bus rider safety videos by the start of the 2017/18 school year. These videos will target specific groups of students— first-time riders, junior kindergarten to Grade 3 students, and Grade 4 to Grade 8 students. As well, the service provider will also develop two standardized on-site school bus safety training modules—one for junior kindergarten to Grade 3 students, and one for Grade 4 to Grade 8 students—by the start of the 2018/19 school year.

The Ministry expects that the availability of a standardized school bus safety training program will support school boards and consortia in implementing this recommendation. It informed us that consortia were in agreement in principle with having a standardized training program.

- *determine which grades should be met at the bus stop by an adult, and develop a standardized process for this across the province.*

  Status: Little or no progress.

Details

During our 2015 audit, we found that the grades of students who must be met at the bus stop after school by a parent or designated adult varied across the province from kindergarten to Grade 3.

We were informed by both the Ministry and one of the consortia that this recommendation was

discussed with the Ontario Association of School Business Officials Transportation Committee in June 2016. Consensus could not be reached on the need to standardize the policy on which grades should be met at the bus stop by an adult, and on the suitability of a standardized process across the province.

Recommendation 9

The Ministry of Education should set formal guidelines on the reporting of school vehicle collisions and incidents among the transportation consortia to enable comparison and analysis of their causes and facilitate the identification of issues and best practices of consortia for the purpose of developing strategies to mitigate these in the future.

Status: Fully implemented.

Details

In spring 2016, the Ministry sought feedback on collecting data on incidents from a subcommittee of the OASBO Transportation Committee involved with identifying key performance indicators.

In summer 2016, the Ministry followed up on the survey we had conducted during the course of the audit, to determine whether more consortia were now tracking incidents involving school vehicles by type of occurrence (for example, student dropped off at wrong stop, bus late, bad behaviour). Overall, the percentage of consortia tracking incidents by type had not generally improved since the time of our audit.

The Ministry added new survey questions related to incidents with school buses to the 2016/17 transportation survey, to expand data collection on incidents and promote consistent reporting. Consortia will be asked to report the number of instances (1) where students were reported lost or dropped off at the wrong stop; (2) where students were returned to school due to not being met at the stop according to policy; (3) of poor student behaviour or other student injury or medical emergency. Consortia will also be asked what percentage of time school vehicles were on time.

At the time of our follow-up, the Ministry had shared the results of the 2016/17 transportation survey with consortia and posted them on its website.

The Ministry informed us that it will continue to consult with the subcommittee of the OASBO Transportation Committee on changes to the annual transportation survey to support consistent data collection and to enable analysis of the data.

Eligibility for Busing Varies Significantly across the Province

Recommendation 10

The Ministry of Education, in conjunction with school boards, should set standards on eligibility for transportation services, especially home-to-school walking distances for students, to promote greater consistency in transportation services across school boards within the province.

Status: Little or no progress.

Details

During our 2015 audit, we noted that eligibility criteria (based on home-to-school walking distances) to qualify for busing services varied among consortia, among school boards in the same consortium and sometimes among schools within the same school board. Eligibility criteria also varied between grades.

Since the time of the audit, the Ministry has analyzed school board and consortium eligibility policies for transportation services and has identified the range across the province in home-to-school walking distances by grade for the 2010/11 and 2014/15 school years. The Ministry presented these variations in walking distance policies at the June 2016 meeting of the OASBO Transportation Committee, in order to support decision-making by school boards and transportation consortia.

The Ministry informed us that it was considering using transportation eligibility as a criterion/discussion point in the transportation funding formula review, discussed under **Recommendation 11**, but

this was still in the early stages. The Ministry recognizes that equity in funding would be supported by standardized eligibility criteria.

Funding Formula Needs Updating

Recommendation 11

After implementing standardized eligibility criteria, we recommend that the Ministry of Education (Ministry) should:

- *revisit its current funding formula. The formula needs to reflect school boards' local transportation needs based on the number of eligible riders and consortia utilization of buses, and taking into consideration factors such as geography, availability of public transit and the number of students needing transportation services (due to distance, special needs, special programs or road hazards);*
  Status: Little or no progress.

Details

During our 2015 audit, we found that school board funding for school transportation was not based on need, but was generally historically based with some annual adjustments for enrolment and inflation, and other minor adjustments.

At the time of our follow-up, the Ministry informed us that it was developing a plan to revisit its funding formula. It was expecting to begin consultations with stakeholders in fall 2017.

- *implement an updated funding formula ensuring that any targeted funding for specific initiatives is spent for the purposes intended.*
  Status: Little or no progress.

Details

During our 2015 audit, we found that the Ministry of Education had provided targeted funding for specific initiatives such as safety programs and wage enhancements for school bus drivers, but had not verified that the funds were spent for the intended purpose.

As noted earlier, the Ministry expected to begin consultations on revising its funding formula in fall 2017.

Opportunities Exist for Efficiency Gains

Recommendation 12

In order to increase the efficiency of school transportation services and in turn decrease costs, transportation consortia should:

- *track and monitor utilization by using the most relevant and accurate information available in planning student transportation services, including actual ridership;*
  Status: Toronto consortium: In the process of being implemented by March 2018.

  Peel consortium: In the process of being implemented by September 2017.

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Details

At the time of our 2015 audit, we noted that two consortia (Toronto and Peel) were determining the number of buses needed using the number of students who are eligible for transportation rather than the actual number of students riding the buses.

Toronto: In the spring, this consortium confirms with schools which of their students who ride the bus will be returning to school in the following school year. The consortium is also in the process of updating its student transportation website to have parents confirm on-line if their children will be using busing services in the following school year. The consortium expects the portal to be fully operational by March 2018.

Peel: This consortium will track actual headcounts by individual bus run three times per school year, every October, March and May. This process will be fully implemented for the 2017/18 school year.

Sudbury: This consortium met the recommendation at the time of our audit.

- *evaluate the benefits of parents of students who are eligible to use school board–provided transportation services being required to opt in or out of using transportation services;*

  Status: Toronto consortium: Little or no progress.

  Peel consortium: Little or no progress.

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Details

At the time of our follow-up, consortia in both Toronto and Peel still did not require parents to opt in/out of using busing services. Parents may notify them in advance either on-line or through the summer call centres, but this is on a voluntary basis. The on-line confirmation process being developed by the Toronto consortium will also be on a voluntary basis. Neither consortia had evaluated the benefits of requiring parents of students eligible for busing services to opt in/out of receiving such services.

At the time of our 2015 audit, the consortium in Sudbury had been requiring parents of eligible students to opt in/out of using busing services during the summer months, to enable route planning.

- *use route optimization software where feasible as a starting point in mapping the most efficient routes to transport students;*

  Status: Toronto consortium: In the process of being implemented by September 2018.

  Peel consortium: Fully implemented (at the time of our 2015 audit).

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Details

Toronto: As at the time of our 2015 audit, this consortium still continues to use route optimization software primarily for the purpose of reallocating costs between the two boards it serves, not for route planning purposes. The consortium informed us that it had run the optimization software to plan the routes for the 2016/17 school year. However, the software generated more buses than were currently on the road, so no major adjustments were made. At the time of our follow-up, the consortium was looking for a new route software provider, which the consortium expects to be using by September 2018.

Peel: This consortium was using route optimization software to plan its routes at the time of our 2015 audit and continues to do so.

Sudbury: This consortium has been using route optimization software for over 10 years for route planning purposes, and will continue to do so.

- *increase sharing of school buses among boards and transporting students from different boards on the same bus;*

  Status: Toronto consortium: Little or no progress.

  Peel consortium: Little or no progress

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Details

At the time of our 2015 audit, we noted that the Ministry's transportation survey in 2013/14 indicated that 36% of consortia reported that the boards they served were sharing buses for at least half of the routes, but only 18% indicated that students from different boards (that is, public/Catholic and/or English/French, within the same region) rode together on the bus for at least half of the trips made. The 2015/16 Ministry survey results showed that 36% of consortia still reported that their boards were sharing buses for at least half of the routes, but only 12% indicated that students from different boards rode together on the bus for at least half of the trips made. Therefore, overall, there has been no change in sharing of school buses among boards but a decline in transporting students from different boards on the same bus.

Comparing the 2013/14 and 2015/16 survey results, we did not note any change for the three consortia visited, as shown in **Figure 1**.

- *stagger school start and end times where possible to reduce the number of buses needed, by allowing them to be used on more than one run;*
  Status: Toronto consortium: Little or no progress.

  Peel consortium: Fully implemented (at the time of our 2015 audit).

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Details

Toronto: There has not been much change in the staggering of bell times since our audit in 2015. The school boards have been unable to adjust their hours as a result of community resistance, and the cost of hiring the teachers who would be needed is greater than the expected transportation savings. The consortium hopes that the new routing software for which it has put out a request—which it estimates will be in use in September 2018—will reduce the number of buses needed.

Peel: The consortium regularly suggests start and end times that are normally accepted by the schools to increase the efficiency of school transportation.

Sudbury: This consortium decides the start times for schools in its area, and will continue modifying school bell times to reduce the number of buses needed.

- *reduce the need for transportation services by co-ordinating common days off;*
  Status: Toronto consortium: Little or no progress.

  Peel consortium: Little or no progress.

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Details

Toronto: As at the time of our 2015 audit, at the time of our follow-up, most days off were already co-ordinated in common among boards. The exceptions were the three professional activity days at the secondary school level that are devoted to local needs and priorities. The consortium noted that there is a possibility of further co-ordination if the Ministry decides to dictate days off.

Peel: The consortium informed us that it continues to ask the boards it serves to consider co-ordinating common days off, and that the boards are now more aware of the benefits of having common days off. However, since 2015, there has been no additional co-ordination of common days off.

Sudbury: At the time of our 2015 audit, the Sudbury consortium had been co-ordinating common days off between its four member boards.

- *only contract for services that are required.*
  Status: Toronto consortium: Little or no progress.

  Peel consortium: Little or no progress.

  Sudbury consortium: Fully implemented (at the time of our 2015 audit).

Figure 1: Ministry of Education Transportation Survey, 2013/14–2015/16

Source of data: Ministry of Education

	At Least 50% of School Bus Routes Shared amongst Boards		Students from Different Boards Ride on the Same Bus for at Least 50% of Trips	
	2013/14	**2015/16**	**2013/14**	**2015/16**
Toronto	No	No	No	No
Peel	Yes	Yes	No	No
Sudbury	Yes	Yes	Yes	Yes

Details

Toronto: At the time of our audit, we found that the consortium was paying bus contractors based on a combination of time and kilometres travelled. We found that the base rate was calculated strictly on time (three hours a day) for its large buses, and they were being used for less than the contracted hours. The consortium has not made any changes to its payment structure since the time of our audit.

Peel: At the time of our audit, the consortium was paying bus contractors based on a combination of time and kilometres travelled. We found that one-third of its buses were significantly underutilized based on the contracted hours. The consortium has not made any changes to the payment structure since the time of our audit.

Sudbury: As found in our 2015 audit, the practice of contracting and paying for actual bus use will continue to be followed.

Recommendation 13

The Ministry of Education should set standards for the optimal utilization of school vehicles for school boards and transportation consortia, and provide guidance to them in calculating utilization rates.

Status: Will not be implemented.

Details

In our *2015 Annual Report*, we reported that consortia were calculating the seating capacity and utilization rates of buses differently, because there was no provincial standard for either one. This made it difficult to compare consortia across the province to see where improvements were needed and to link utilization to the funding for student transportation.

At the time of our audit, the Ministry said it would encourage and support the Ontario Association of School Business Officials Transportation Committee to address the issue at a provincial level.

In June 2017, the Ministry released the results of its 2015/16 Transportation Survey in which it provided guidance to school boards on how to calculate efficiency measures. The report outlines the following routing efficiency measures:

- average students per full-size bus—to measure ability to use available seating capacity;
- average runs per route—to measure ability to reuse assets; and
- number of buses per 100 students—to measure both ability to use both the available seating capacity and to reuse the assets.

According to the survey, in 2015/16, the average students per full-size bus ranged from 40.1 at one consortium to 115.5 at another consortium, the number of runs per route ranged from 1 to 2.2, and the number of buses per 100 students varied from 0.9 to 2.5 province-wide. Huge differences were also noted when comparing consortia serving areas of similar density.

However, the Ministry informed us that it does not plan to set standards for the optimal utilization of school vehicles for school boards. The Ministry's reasoning is that utilization rates for vehicles used for student transportation are directly related to policy and operational decisions at the consortium and school board level.

We continue to believe that the Ministry should implement this recommendation to enable comparison of school bus utilization rates across consortia.

Recommendation 14

The Ministry of Education should clarify the roles and responsibilities of school boards and consortia in setting eligibility and employing efficiency measures.

Status: Will not be implemented.

Details

During our 2015 audit, we noted that the ability of a consortium to efficiently and effectively manage transportation services is affected by the level of authority delegated to it by the school boards it serves, and the willingness of school boards to work co-operatively and integrate services. Consortia with the authority to establish eligibility criteria and employ efficiency measures uniformly across

their entire service area were more likely to employ best practices to their fullest potential.

At the time of our follow-up, the Ministry informed us that is does not plan to implement this recommendation, noting that school boards and consortia are responsible for their own student transportation policies and operational decisions, including eligibility decisions. The Ministry directed us to resources and supports it has provided over the years to school boards and consortia to encourage them to adopt efficiency measures. These resources were in existence at the time of our audit, however, and had not had the desired effect.

We continue to believe that the Ministry should implement this recommendation to enable consortia to manage transportation services more efficiently and effectively.

Procurement of Student Transportation Services Needs Improvement

Recommendation 15

The Ministry of Education, in conjunction with the school boards and transportation consortia, should develop standard criteria for evaluating the submissions of school bus operators in procuring student transportation services. The criteria should appropriately consider the operators' ability to safely transport students.

Status: Will not be implemented.

Details

During our 2015 audit, we found that, of the three transportation consortia we visited, only two had considered both qualitative factors and price when procuring busing services. The other consortium had selected school bus operators entirely on price. We also noted that safety-related criteria varied significantly among the three consortia, ranging from a high of 65% to a low of 26% of the total qualitative score.

At the time of our audit, the Ministry agreed to support school boards and consortia in reviewing this recommendation. In November 2015, an expert panel that the Ministry commissioned to identify best practices and explore options for competitively acquiring busing services other than through requests for proposals presented its report to the Ministry. In January 2016, the Ministry shared the report, entitled *Student Transportation Competitive Procurement Review Report*, with the chairs of Ontario district school boards and with the two associations representing the school bus operators. The Ministry expressed its expectation "that school boards and consortia work together to carefully review both the expert panel's report and the Auditor General's report, and consider addressing, where appropriate, the opportunities they present." According to the Ministry, implementation decisions reside with the school boards and consortia.

The Ministry informed us that, in 2016, it provided $200,000 to the Ontario Association of School Business Officials to establish the Student Transportation Competitive Procurement Advisory Committee, whose first task would involve reviewing standardization opportunities identified in the *Student Transportation Competitive Procurement Review Report*. Based on our review of the report produced by the advisory committee, in July 2016, the committee provided a sample list of requirements for school bus operators, but not a list of evaluation criteria or how much weight each criterion should carry in the selection process. It left these decisions up to each school board or consortium.

We continue to believe that the Ministry should implement this recommendation to ensure all consortia appropriately consider both price and qualitative factors, such as safety, to the same extent when procuring the services of school bus operators.

Ministry of Research, Innovation and Science

University Intellectual Property

Follow-Up on VFM Section 3.14, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW						
	# of	Status of Actions Recommended				
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1		1			
Recommendation 2	1		1			
Recommendation 3	1			1		
Recommendation 4	1		1			
Recommendation 5	4		3	1		
Recommendation 6	1			1		
Recommendation 7	1			1		
Recommendation 8	1	1/3	2/3			
Recommendation 9	4	1	1/3	1/3	2	1/3
Recommendation 10	1	1/3	1/3		1/3	
Recommendation 11	2	1/3	1/3	1/3	1	
Recommendation 12	2			1	2/3	1/3
Recommendation 13	2	2/3		1 1/3		
Recommendation 14	1	2/3	1/3			
Recommendation 15	4	3	1/3	1/3		1/3
Total	**27**	**6 1/3**	**8 1/3**	**7 1/3**	**4**	**1**
%	**100**	**23**	**31**	**27**	**15**	**4**

Overall Conclusion

According to the information provided to us as of August 8, 2017, by the Ministry of Research, Innovation and Science (Ministry), McMaster University, the University of Toronto and the University of Waterloo, 54% of the actions we recommended in our *2015 Annual Report* had either been fully implemented or were in the process of being implemented. Little progress was made on implementing another 27% of our recommendations, and 15% would not be implemented.

For recommendations directed to the Ministry, 67% were in the process of being implemented and

33% had little or no action taken. Specifically, the Ministry has done little to assess progress on the Province's 2008 Innovation Agenda and has not developed a strategy or action plan to address barriers to commercialization.

For recommendations directed at the universities, 48% were either implemented or in the process of being implemented, 24% had little or no progress, and 22% would not be implemented. For example, little or no progress was made in developing socio-economic performance indicators to better communicate outcomes of research and commercialization efforts. Recommendations that would not be implemented by at least one university included those aimed to help ensure all intellectual property created with university resources are being disclosed.

The status of each of our recommendations is included in the report.

Background

The audit focused on whether the Ministry of Research, Innovation and Science (Ministry) had put effective processes in place to provide research funding to universities, monitor the use of research funding, and assess the benefits to Ontarians. As well, the audit looked at how select universities manage intellectual property generated from university research, including identifying, protecting, assessing and commercializing intellectual property.

Ministry of Research, Innovation and Science

The Province provides research grants to post-secondary institutions, research hospitals and not-for-profit research institutions. Under Ontario's Innovation Agenda of 2008, the Ministry (previously the Ministry of Research and Innovation) is responsible for extracting "more value from all provincial investments in research and innovation." The Ministry's commercialization programs are intended to provide services such as access to capital, business acceleration services, mentoring, training and networking to companies, entrepreneurs and researchers. The Ministry provides funding to a network of organizations, including the Ontario Centres of Excellence, MaRS, Regional Innovation Centres and sector innovation centres, which in turn fund and/or provide these services.

We estimated that from 2009/10 to 2013/14, the Province had provided at least $1.9 billion for university research, excluding funding for service delivery agents (such as MaRS and regional innovation centres) and tax incentives for private companies.

In our *2015 Annual Report*, we noted that the Ministry did not co-ordinate or track all of the Province's investments in research and innovation, and had not measured the value created from these investments. As a result, it was difficult for the government to determine whether it was getting value for money from its significant investment in university research.

Some of our significant observations relating to the Ministry included the following:

- The Ministry needed to develop an implementation plan to monitor whether it is getting value for money from its investments in research and innovation in accordance with the strategic direction outlined in its 2008 Innovation Agenda.
- The Ministry had a comprehensive selection process for awarding university grants, and was generally following its guidelines for awarding these grants, but did not confirm that research outcomes aligned with those identified in grant proposals.
- In order to address barriers to commercialization, the Ministry needed to develop a strategy and action plans with timelines to monitor progress.
- The provincial government had virtually no rights to intellectual property resulting from the research it funded. Unlike Ontario, we

noted that U.S. federal government agencies could use intellectual property made with government funding royalty-free for their own non-commercial purposes.

Universities

Inventions and scientific discoveries made at universities could spur economic growth and enhance Ontarians' quality of life if they are commercialized. This requires universities to protect their rights to the intellectual property in their discoveries, and to bring their discoveries to market for the benefit of Ontarians.

Each university in Ontario has a vice-president of research responsible for managing and coordinating the university's research and commercialization activities. University technology transfer offices share their expertise and industry connections with inventors, in exchange for which inventors may agree to give up some or all of their intellectual property rights, in accordance with the universities' policies.

We further found during our 2015 audit that technology transfer offices we visited had experience with assessing the commercialization potential of inventions, but could make some improvements. Specifically:

- While universities were tracking key commercialization indicators and results of their technology transfer offices, they were not yet measuring the socio-economic impact of their research activities and commercialization efforts.
- Universities may not always be taking out patent protection in time to prevent others from obtaining patents on their inventions.
- None of the technology transfer offices we visited highlighted revenue generation as a driving force.
- None of the technology transfer offices we visited had formal guidelines or policies on managing costs associated with commercialization. In a number of cases, there were delays in collecting revenues from intellectual property revenue-generating agreements.
- From our review of files in technology transfer offices, documentation was not available to confirm that formal processes were used to assess the feasibility of commercialization and track decisions/actions being taken.

In our 2015 report, we recommended that the Ministry establish processes to track and monitor the total direct and indirect provincial funding for research and innovation, and the new technologies and inventions resulting from the funding; develop a strategy and action plan on addressing barriers to commercialization and monitor its progress; collaborate with stakeholders to collectively develop useful performance measures that assess the socio-economic benefits to Ontarians; and revisit and assess the pros and cons of including provisions in selective research funding agreements that would allow the Province to share in future income and/or have the non-exclusive right to use intellectual property royalty-free for non-commercial internal purposes.

We also recommended that universities review their performance measures and identify opportunities to report more detailed information in their annual research reports and in reports going to senior management; develop guidelines to help faculties assess whether university resources were used in the creation of intellectual property; formally track and review how long it takes to complete assessments on whether or not to commercialize disclosures and address any delays; file for patent protection as early as possible; develop case management documentation guidelines and ensure commercialization decisions and actions are clearly and consistently documented; implement policies and guidelines regarding cost management and track costs incurred by type for each disclosure; and improve revenue collection efforts.

In total, we made 15 recommendations, consisting of 27 actions, to address our audit findings and received commitments from the Ministry that it would take action to address most of them

and from the universities that they would take action to address the ones most applicable to their circumstances.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and August 8, 2017, and obtained written representation from the Ministry of Research, Innovation and Science, the University of Toronto, McMaster University and the University of Waterloo on September 8, 2017 that they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Government Research-Related Investments and Activities

Recommendation 1

As the lead ministry in ensuring Ontario's efforts to strengthen its innovation culture are co-ordinated and comprehensive, the Ministry of Research and Innovation should establish processes to track and monitor the total direct and indirect provincial funding for research and innovation and the new technologies and inventions resulting from that funding.

Status: In the process of being implemented by October 2017.

Details

The Ministry has developed a research inventory tracking tool to be used by ministries for tracking research investments and expenditures, including both direct and indirect costs. The tool is expected to be finalized and provided to all government ministries by October 31, 2017, and will capture information related to research funding programs available; total funding for each research activity, including the breakdown between direct and indirect costs; and whether each ministry tracks the intellectual property arising from the funded research activities—that is, invention disclosures, patents applied for and granted, copyrights and licences. Ministries will be expected to report annually on their previous fiscal year's activity.

Recommendation 2

The Ministry of Research and Innovation should develop and implement a multi-year plan to cover the Innovation Agenda's strategic direction as well as provincial goals and initiatives on research and innovation. This plan should provide enough detail to clearly summarize the deliverables, and establish timelines and targets to deliver on key strategies, initiatives and research and innovation programs.

Status: In the process of being implemented by March 2018.

Details

In 2016 the government announced the $400 million Ontario Business Growth Initiative, which provides an overarching framework and strategy for key ministries involved in economic development. This initiative complements the Innovation Agenda by building on three components:

- investing in research and innovation, including the commercialization and adoption of new technologies;
- scaling up by helping Ontario's small- and medium-sized companies gain access to capital and expertise to grow their businesses; and
- streamlining the regulatory system to avoid impeding business growth.

Rather than focusing specifically on the Innovation Agenda, the Ministry has revised its approach and throughout the 2017/18 fiscal year it plans to design and implement programs and more detailed action plans in alignment with this new framework, with a key focus on measuring program performance. Specific details of programs, initiatives and related performance measures were released in June 2017 as part of the Ministry's *2017/18 Estimates Briefing Book*.

Recommendation 3

To assess progress on the Province's 2008 Innovation Agenda and provide comparisons between Ontario and its peer jurisdictions, the Ministry of Research and Innovation should conduct assessments periodically against the indicators in the scorecard and report the results publicly.

Status: Little or no progress.

Details

According to the Ministry, its existing innovation indicators, developed in 2013 by its Research and Analysis Branch to help inform policy and program development, are no longer appropriate. It informed us that work is underway to revise these to develop a suite of high-level key performance innovation indicators to better measure program effectiveness and reflect both the 2008 Innovation Agenda and the 2016 Ontario Business Growth Initiative. For example, the Ministry informed us that it is seeking to identify reliable data sources, data gaps and methods to operationalize these indicators once approval is obtained. It expects to have these indicators by November 2017. The Ministry continues to assess the merit of publishing an innovation scorecard or other comparative benchmark measurements.

Recommendation 4

To address barriers to commercialization of intellectual property, the Ministry of Research and Innovation should consult again with stakeholders for a current review of barriers, develop a strategy and action plan with a timeline for implementation, and monitor its progress on addressing those barriers.

Status: In the process of being implemented by November 2017.

Details

The Ministry informed us that legislation and regulations regarding intellectual property are the purview of the federal government. As Ontario is a sub-national government, its approach to intellectual property is either enabled or constrained by national legislation and international agreements.

The Ministry held roundtable sessions in September 2016, December 2016 and March 2017 to engage policy makers, academics and representatives of Canada's intellectual property business sector. The objective of these sessions was to identify challenges and problems facing the national and provincial intellectual property landscape and to develop new ideas about how intellectual property could be further leveraged to strengthen Canada's performance. The key problems identified included a lack of understanding of intellectual property and insufficient intellectual property expertise to meet needs; lack of access to affordable legal services, especially at the earliest stages of the business venture; systemic gaps in technology transfer and commercialization at universities and research institutions; and absence of a national intellectual property strategy and co-ordination among different levels of government. The Ministry informed us that it is planning further engagements with stakeholders to help validate potential provincial policy approaches. It also told us that it has engaged with the federal government.

In conjunction with these stakeholder consultations, the Ministry told us it is also undertaking research to support the development of an intellectual property framework. As part of this process, the Ministry is examining policies and programs in other jurisdictions and seeking to further identify gaps and barriers affecting innovation and commercialization of intellectual property in Ontario. The Ministry expects to implement an intellectual property framework by November 2017.

Recommendation 5

To ensure the Ministry of Research and Innovation (Ministry) is getting value for money for its investment in research and commercialization activities, the Ministry should:

- *track what portion of research funding goes to basic vs. applied research, and develop appropriate indicators for each type of research;*
  Status: In the process of being implemented by fall 2017.

Details

The Ministry has designed a tool to track the amount of research funding it provides and the nature of research activity—that is, basic versus applied. The tracking tool allows research funding recipients to assess the percentage of their research that falls within the categories of pure basic research, oriented basic research, applied research and experimental development. The Ministry has tested the tool in two pilot studies involving recipients of the Ontario Research Fund – Research Excellence program (July 2016) and recipients of Early Researcher Awards funding (October 2016). The Ministry plans to launch the tracking tool for all active projects within its major research funding programs by July 31, 2017, with results available in fall 2017. The Ministry informed us that while it will be including a performance measure that distinguishes basic versus applied research undertaken for its major funding programs, no performance targets will be established because the Ministry's objectives with research funding are broader than simply encouraging one type of research over another.

The intent of our recommendation was that the Ministry develop a distinct set of indicators to be used to assess the effectiveness of basic research, and a different and distinct set of indicators to be used for applied research. We recognize that the purpose of basic research is different from applied research (that is, generating and advancing basic knowledge versus developing new technologies or techniques). Therefore, basic research would not perform well when judged against indicators that measure, for example, the number of invention disclosures, patents and licences.

- *collaborate with stakeholders to collectively develop useful performance measures that assess the socio-economic benefits to Ontarians;*
  Status: In the process of being implemented by summer 2018.

Details

The Ministry has not yet developed specific performance measures that assess the socio-economic benefits to Ontarians. However, the Ministry expects an upcoming review of the Ontario Research Fund to provide recommendations on how to assess impact, which could include suggestions for socio-economic performance indicators. The review will be conducted by an expert panel. The Ministry expects the review to be completed by summer 2018.

The Ministry is also conducting studies including a jurisdictional scan to support the development of a potential socio-economic impact framework. It has advised that no gold standard exists for measuring the socio-economic impact of research, but that these studies will be used as a reference point. The Ministry expects to complete the jurisdictional scan by December 2017.

- *increase the reliability of performance results by implementing measures to increase the response rate from clients receiving commercialization supports and developing processes to eliminate duplicate reporting;*
  Status: Little or no progress.

Details

The Ministry advised that since our audit, each Regional Innovation Centre has conducted follow-up activities with its clients in order to increase survey response rates. For example, Regional Innovation Centres review their survey tool to determine which clients have not yet responded and then send out weekly reminders to complete the survey. We were also informed that the Toronto-based Regional Innovation Centre called clients up to three times if they did not respond to the survey. As a result, since the time of our audit, the survey

response rate has increased about 5 percentage points, from 36.5% in 2014/15 to 41.2% in 2015/16 for all Regional Innovation Centres combined. Although there has been improvement, this is still a low response rate.

In 2016, the Ministry started requiring the Ontario Network of Entrepreneurs tech-based delivery partners to collect Canada Revenue Agency business numbers from clients. The Ministry expects that collection of this information could eliminate some duplicate reporting by, for example, removing the double-counting of jobs created by clients. However, this is still very early in a long-term project, which the Ministry expects could take a number of years before yielding insightful results.

- *publicly report performance results on research funding and commercialization programs.*
  Status: In the process of being implemented by December 2017.

Details

The Ministry advised that it will report on performance of its research and commercialization programs through its *2017/18 Estimates Briefing Book*. The briefing book will highlight achievements of the Ministry's major funding programs, including results related to job creation and the number of businesses supported.

As part of the Province's Open Data Directive to make government data publicly-accessible, the Ministry has agreed to share some performance data related to the Ontario Network of Entrepreneurs (which provides ministry-funded commercialization services) with the Treasury Board Secretariat, which is co-ordinating data from all ministries. The data, which includes client profile and impact information (including licences), has not yet been approved by the Minister but the Ministry expects it to be approved and released before the end of 2017.

Intellectual Property Rights

Recommendation 6

The Province should re-visit and assess the pros and cons of including provisions in selective research funding agreements that would allow it to share in future income from the sale or licence of resulting intellectual property, and/or to have the non-exclusive right to use the intellectual property royalty-free for non-commercial internal purposes, where there may be value to do so.

Status: Little or no progress.

Details

At the time of our 2015 audit, the Ministry indicated that Ontario's approach to intellectual property ownership was consistent with best jurisdictional practices, federal policy and academic/industry preference, and was based on the assertion that government ownership of intellectual property is costly and may be an impediment to commercialization and innovation. We reported that intellectual property rights should not be viewed as an impediment to commercialization without further detailed analysis of the impact and potential value to Ontario. In its response to our audit recommendation, the Ministry agreed to assess the pros and cons of adopting this approach. However, since the time of our audit, the Ministry has not performed any additional review or analysis.

The Ministry informed us that it was in the middle of developing a strategy for intellectual property, and that there is no consensus about the most effective ways to secure value for inventions.

University Oversight of Research and Intellectual Property

Recommendation 7

In conjunction with government sponsors, universities should develop socio-economic performance measures to better communicate the outcomes of their research and commercialization efforts.

Status: All three universities: Little or no progress.

Details

None of the universities have developed socio-economic performance measures in conjunction with government sponsors. Although the Ministry hosted roundtable events in 2016 to discuss intellectual property commercialization strategies, awareness and outreach, and technology transfer at universities, the universities informed us that the development of socio-economic performance measures has not been part of these discussions. All three universities were interested in participating in government-led discussions to design such measures.

Recommendation 8

Universities should review their research reporting requirements on performance measures, and identify opportunities to report more detailed information in the annual research report and in management reports going to senior management.

Status: University of Toronto: Fully implemented.

McMaster University: In the process of being implemented by December 2017.

University of Waterloo: In the process of being implemented by December 2017.

Details

University of Toronto: At the time of our 2015 audit, only this university's technology transfer office had some performance measures related to commercialization activities and was reporting regularly on them. At the time of our follow-up, we noted that it continues to report both internally and publicly on a number of research and commercialization performance measures. For example, the technology transfer office provides a quarterly report on industry partnerships, disclosures, licensing and start-up activity to the Vice-President Research and Innovation and also to the research administrative leadership of each faculty. As well, its annual research report contains information on research funding, including funding provided, number of principal investigators, funding programs involved, private-sector partners, new funding applications and other matters. It contains innovation and entrepreneurship information as well, including disclosures, licensing agreements, patent filings, start-ups, start-up investment dollars, start-up sales and other information. The university informed us that it undertakes an annual review of its performance measures as part of its regular reporting process and considers any new measures that may warrant inclusion.

McMaster University: The technology transfer office's annual report on commercialization activity was revised to include a more detailed analysis of the distribution of inventors and revenues among the different faculties and hospitals; this information was not present in previous annual reports. It also continues to examine whether any other information should be included in its performance reports and is currently considering the inclusion of performance measures surrounding workshops given or hosted and company connections made. In addition, the university plans to provide further guidance on performance measures reported to senior administration and to the public in its next strategic research plan, which it expects to develop by December 2017.

University of Waterloo: At the time of our follow-up, no significant changes had been made since our 2015 audit in the type of information reported publicly or internally to senior management. The university's strategic plan continued to provide high-level information in two areas related to research and innovation, which it referred to as "transformational research" and "uniquely entrepreneurial." For example, in the area of "transformational research," performance indicators reported on are primarily based on the amount of research funding overall and by source. In the area of "uniquely entrepreneurial," performance indicators include the number of jobs and new enterprises created by students and alumni, the number of new enterprises still active after one year, and number of university-based undergraduate students whose

companies receive venture capital backing. The university informed us that by December 2017, it expects to assemble information similar to that reported by the other two universities into an annual report for the Vice President of Research, who will, in turn, discuss the information with the deans and other senior administrative personnel.

Commercialization Activity at Universities

Recommendation 9

To ensure that all intellectual property created with university resources is disclosed, universities should:

- *develop guidelines to help faculties assess university resources in the creation of intellectual property and to require such assessments be documented;*

  Status: University of Toronto: Fully implemented.

  McMaster University: In the process of being implemented by December 31, 2017.

  University of Waterloo: No longer applicable.

Details

University of Toronto: The university's FAQ sheet relating to Inventions and Commercialization activity at the university describes "what constitutes the use of university resources": namely, whether all or part of the work was supported by research grants administered by the university; performed in a university-owned or operated facility; made use of proprietary software or other applications; or made use of specialized facilities owned or operated by the university. In addition, the university has an intellectual property officer who acts as a resource to the university community, including faculties, to clarify concerns surrounding the use of university resources. On a case-by-case basis, the technology transfer office's director will also assist if additional clarification is needed beyond the policy and guidelines.

The technology transfer office does not maintain documentation of the methods used by faculties to assess the use of resources in the creation of an invention; however, where a faculty member discloses an invention that was created with no significant use of university resources, the technology transfer office maintains the signed attestation by the inventor(s) with the applicable department chair/director sign-off.

McMaster University: In early 2017, the university developed guidelines to help faculties assess the use of university resources used in the creation of intellectual property. This new process will first be communicated to the university's research council and deans of research and will then be posted on the university's website and formally communicated to faculties. The assessment will require written confirmation through the review and approval of the use of university resources by the appropriate department chair, supervisor, faculty dean or vice-president. Documentation will be kept on file at the technology transfer office. The university plans to have this process in place by December 31, 2017.

University of Waterloo: This university has an inventor-owned intellectual property policy; as a result, this recommendation is not applicable to it.

- *clearly communicate invention disclosure requirements during technology transfer office presentations to staff and students;*

  Status: University of Toronto and the University of Waterloo: Fully implemented.

  McMaster University: Little or no progress.

Details

University of Toronto: In January 2017, the university developed new presentation materials outlining its invention disclosure requirements, including information on why, when and how inventions should be disclosed. Presentations, using the revised material, have since been made to university faculty, departments and students.

McMaster University: The university's technology transfer office has continued to make presentations to faculty and students since our audit. However, we noted that presentation materials it provided did not include sufficient detail to ensure that staff and students are fully aware of the university's disclosure requirements. For example, presentation slides provided highlight the university's intellectual property policy, including ownership, but do not explicitly mention the disclosure requirements.

University of Waterloo: In September 2016, the university developed a presentation deck that articulates the university's intellectual property disclosure policy for use with students and faculty. This presentation deck was used to make two presentations to chairs/deans and to graduate students in 2017.

- *require all faculties to use only disclosures made directly to the technology transfer office for performance review purposes; and*
  Status: All three universities: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

All three universities informed us that they will not implement this recommendation. The University of Toronto told us that it does not believe that a significant amount of intellectual property is not being disclosed to its technology transfer office. McMaster University did not believe that making this a requirement would lead to an increase in the likelihood that all inventions would be disclosed because faculty performance reviews, in most cases, do not have a heavy weighting on disclosures. The University of Waterloo said that technology disclosures are not significantly used in evaluating staff performance and are only nominally used within the faculty of engineering.

- *use research grant status reports sent to research funders to anticipate and track completeness of disclosures.*
  Status: All three universities: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

All three universities informed us that they will not implement this recommendation. The University of Toronto told us that it does not believe that a significant amount of intellectual property is not being disclosed to its technology transfer office. McMaster University advised us that it would not be implementing this recommendation due to the time and resources needed to complete such a review. However, it informed us that it has occasionally followed up with inventors on the status of their work based on grant funding received, especially if the funding had objectives related to commercialization or developing applied technologies. The University of Waterloo said that there may not be a clear benefit given that it operates under an inventor-owned intellectual property policy.

Recommendation 10

In the absence of objective criteria to assess the commercial potential of disclosures, university technology transfer offices should develop a formal process to discuss and challenge decisions on commercial potential, including assessments undergoing a second level of review.

Status: University of Toronto: Fully implemented.

McMaster University: In the process of being implemented by December 2017.

University of Waterloo: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

Details

University of Toronto: All invention disclosures available to the university (those where ownership has not been acquired by the inventor or a third party) are reviewed by the technology transfer office and also by an external organization (MaRS Innovation), which provides a second level of review. In addition, the university works with other external commercialization partners, such as the Centre for the Commercialization of Regenerative Medicine, for additional review as required.

McMaster University: The technology transfer office holds monthly group meetings to review and challenge decisions made regarding the commercial potential of inventions. A guideline has been developed to formalize this secondary review process but no documentation of these discussions is currently retained. The technology transfer office intends to implement a process for recording minutes and keeping other documentation to support this review by December 2017.

University of Waterloo: The university advised us that it will not implement this recommendation because implementation of a secondary staff-level review would consume significant additional staff time for limited benefit. The university believes its current practice of completing an assessment worksheet and discussion between the designated Technology Manager and the Director is adequate to ensure that a project can be initiated in a timely manner. Furthermore, it says its current assessment processes rely on submitting project proposals to various federal government programs to secure funding to further demonstrate commercial viability. These programs perform their own expert peer review process, which the university considers to serve as a better second level of review than additional internal staff efforts.

Recommendation 11

To help ensure commercialization assessments are completed within a reasonable timeframe to avoid delays in patent filings, university technology transfer offices should:

- *establish time frames to complete assessments based on technology type or complexity of invention; and*

  Status: All three universities: Will not be implemented.

Details

None of the universities have established time frames to complete assessments based on the type or complexity of an invention. All three universities advised us that determining unique time frames for assessments would be too difficult to complete because of the diverse range of technologies assessed, stage of technological development, researcher interest in commercializing, and other considerations.

- *formally track and review how long it takes to complete assessments, and address any delays identified.*

  Status: University of Toronto: Little or no progress.

  McMaster University: In the process of being implemented by December 2017.

  University of Waterloo: Fully implemented.

Details

University of Toronto: The university does not track compliance with its 45-day target for completing an initial assessment of a disclosure. It noted that assessment times are often dependent on response times to information requests made to inventors and/or industry partners. At the time of our follow-up, the university informed us that it would commit to undertaking an annual process to review overall disclosure processing timelines and identifying possible system reasons for delay.

McMaster University: An informal review of assessment timelines began in June 2016 as part of monthly group meetings. However, no formal report or analysis is prepared. The technology

transfer office is exploring ways to generate reports on assessment completion times and plans to have these reports in place and to evaluate whether they help identify undue delays by December 2017.

University of Waterloo: As of June 2017, the university began receiving a report to periodically review assessment times. But it advised us that there can be good reasons for purposely delaying a patent application—for example, to assemble additional data leading to a stronger application.

Recommendation 12

To help ensure intellectual property is properly protected, universities and/or their technology transfer offices, as applicable, should:

- *ensure contracts with faculty associations and researchers include provisions to make them aware of the importance of not disclosing inventions prior to filing for patent protection;*

  Status: University of Toronto and the University of Waterloo: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation.

  McMaster University: No longer applicable. Objective of the recommended action is being met through other means.

Details

University of Toronto: The university does not consider it necessary to amend its agreement with its faculty association because the purpose of the agreement is to set out the general relationship between faculty and the university, not specific provisions such as disclosing inventions. As a condition of employment, all faculty members agree to follow university policies (including the inventions policy) as outlined in their appointment letters. The university considers it inappropriate to single out the inventions policy among all others in appointment letters, since the majority of faculty will not be engaged in activities that result in disclosures. However, we noted that the university's invention policy does not warn against publicly disclosing inventions before filing for patent protection.

McMaster University: At the time of our audit, only this university had a formal policy on its website warning faculty and students about public disclosure of discoveries. The university's faculty association handbook is provided to all faculty to inform them of the policies they are expected to adhere to, including the university's intellectual property policy. This policy states that those involved in commercialization may be asked to withhold publication or refrain from making any presentations for at most six months from the time of disclosure, to ensure that appropriate protection can be put in place.

University of Waterloo: The university will not be implementing this recommendation. The university's reasoning is that the memorandum of understanding (MOU) with faculty spells out the terms and conditions of employment and it does not believe the MOU is the proper vehicle to specifically detail aspects of protecting intellectual property. The university believes that the objectives of this recommendation would be more appropriately implemented through education initiatives to increase awareness rather than formal faculty employment agreements.

- *file for patent protection as early as possible, where appropriate, to minimize the risk of others filing first and precluding them from obtaining a patent.*

  Status: All three universities: Little or no progress.

Details

All three universities informed us that they try to balance quick filing of patent protection with ensuring sufficient data has been compiled to support a strong patent application, thereby increasing the chances that a patent is granted. All three indicated that many factors have to be considered in determining when to file an application. However, none

of the universities have done an analysis to compare the length of time taken to file a patent application with the success rate in obtaining a patent to support their assertions. Timely filing for patent protection does not preclude taking the time to develop a strong application.

Since our 2015 audit, the University of Toronto has hired a Patent Portfolio Administrator to aid with the timely filing of patent applications. We reviewed disclosures made at McMaster University for 2016 and noted that 37% of inventors indicated that they had made information public before disclosure to the transfer technology office.

Recommendation 13

To permit efficient management review of commercialization decisions and efforts and to help facilitate knowledge transfer among personnel in case of staff turnover, universities should:

- *develop case management documentation guidelines; and*

  Status: University of Toronto and McMaster University: Little or no progress.

  University of Waterloo: Fully implemented.

Details

At the time of our 2015 audit, we noted that the method used by all three universities to document the decisions and actions they took to manage inventions disclosed to them made it difficult to assess the sufficiency and scope of commercialization activities. For example, key decisions and actions were not summarized, and there were no checklists noting the full suite of commercialization activities to be undertaken. It was difficult to understand the full scope of commercialization activities from a review of the electronic files alone without commercialization managers explaining what actions and decisions they had taken to date.

At the time of our follow-up, the University of Toronto and McMaster University had not developed guidelines or made changes to their case management documentation to address the concerns above. McMaster University advised us that the nature of the technology or discovery may vary greatly, making it difficult to standardize documentation.

In May 2017, the University of Waterloo developed a draft case management standard operating procedure document that outlines the commercialization process staff should follow as well as certain documentation requirements.

- *ensure that commercialization decisions and actions are clearly and consistently documented in accordance with the guidelines to be developed.*

  Status: University of Toronto and McMaster University: Little or no progress.

  University of Waterloo: Fully implemented.

Details

University of Toronto and McMaster University: The universities were using the same case management system that was in place during our initial audit. McMaster University advised us that the nature of the intellectual property may vary greatly, making it difficult to standardize documentation.

University of Waterloo: The university designed an activities checklist to be used as a case management guideline for staff, starting June 2017. This checklist identifies standard tasks to be performed in the assessment and management of each disclosure received by the technology transfer office. These include looking for evidence that an invention is already known, scheduling internal meetings with the Director of Commercialization, contacting private companies for feedback, developing marketing plans, and other tasks. The case management system was also upgraded to allow management reports to be pulled based on the checklist data. These management reports could allow for review of key tasks and their associated due dates and completion dates, along with details of actions taken.

Recommendation 14

To manage costs incurred in the effort to commercialize intellectual property, university technology transfer offices should implement formal policies and guidelines regarding cost management, and track costs incurred by type (e.g., legal costs, patent fees, and marketing) for each disclosure.

Status: University of Toronto: Fully implemented.

McMaster University: Fully implemented.

University of Waterloo: In the process of being implemented by fall 2017.

Details

University of Toronto: The university has not established policies related to cost management of commercialization efforts for projects because commercialization activities vary across projects, and therefore it advised that a single framework is not appropriate. However, the university does track costs of commercialization activities for each project, for example, legal fees and patent costs, against informal guidelines.

McMaster University: Patent and legal expenses for each technology are recorded in the technology transfer office's information system and updated on a monthly basis. Technology transfer office staff also provide quarterly cost projections of expected patent and legal costs for each active disclosure they are managing to allow for better cost management.

University of Waterloo: The university is developing a semi-annual report that will provide staff with a snapshot of total patent and marketing costs for each of their projects and will require them to estimate and report on upcoming costs within the next six months; the report is expected to be implemented by fall 2017.

Recommendation 15

To help ensure the timely and accurate collection of revenue owing, all universities should:

- *ensure they have an accurate and up-to-date tracking payment schedule that includes due dates, so that universities can bill one-time payments in advance and remind licensees to submit royalty payments on time;*
  Status: All three universities: Fully implemented.

Details

University of Toronto: Since our 2015 report, the university has created a new administrative position to formally track all licensing projects, royalty payments and invoicing. Tracking documents have been created to let the university track money owed to it.

McMaster University: As of March 2016, payment schedules and licensee reporting requirements for current and active licences or commercialization agreements have been updated in the technology transfer office's information system. They now include activity alerts to ensure that university staff can issue invoices, request royalty reports, and follow up on late payments in a timely manner.

University of Waterloo: The university has developed a licence agreement checklist, containing information on fees due and licensee reporting requirements, that staff use once a commercialization deal has been executed. The technology transfer office administrator inputs the information from the checklist into the office's information system. Payment alerts have been programmed into the system, allowing staff to follow up when due dates are missed.

- *obtain sales and revenue reports from licensees to support the amount of royalties remitted;*
  Status: All three universities: Fully implemented.

Details

University of Toronto: The new administrative officer regularly reviews sales and revenue reports from licensees to support the amount of royalties received.

McMaster University: The technology transfer office's information system has been modified to

request revenue reports from licensees and follow up when these are not received.

University of Waterloo: At the time of the audit, this university was in compliance with the recommended action to obtain adequate documentation to support the royalty payments received.

- *develop criteria to help assess when it is worthwhile to ask for an audit report (for example, when royalty payments are dependent on sales generated); and*

  Status: University of Toronto: Fully implemented.

  McMaster University: Little or no progress.

  University of Waterloo: In the process of being implemented by end of September 2017.

Details

University of Toronto: As part of a commercialization FAQ document, the university has developed criteria for when an audit may be undertaken. The criteria include:

- The products being sold are clearly dependent on the intellectual property licensed under the agreement.
- There is a sudden or unexpected decrease in royalty revenue.
- The lost revenue is expected to be greater than 5%.
- The lost revenue is expected to be greater than $250,000.

McMaster University: No criteria have been developed, but the technology transfer office advised that it has been involved in discussions with other universities regarding best practices for audit criteria.

University of Waterloo: The University of Waterloo has had discussions with the University of Toronto on the process it used to implement our recommendation, and was determining what elements of the process fit best with its practices. The university expects to implement this recommendation by end of September 2017.

- *enforce the interest penalties stipulated in contracts to encourage licensees to submit revenue payments on time.*

  Status: University of Toronto and McMaster University: Fully implemented.

  University of Waterloo: No longer applicable.

Details

University of Toronto: The university informed us that it follows up on delinquent payments as applicable and flags them for senior management at the technology transfer office. The university informed us that since 2015, it has had only three delinquent payments and charged interest in one case. In the second case, it terminated the licensing agreement, and in the third, it was waiting as the entity was undergoing restructuring.

McMaster University: At the time of our follow-up, this university was enforcing interest rate penalties. However, the university advised that interest penalties are not always an option for start-up or small companies where payment may be delayed due to their financial situation. In these cases, consideration is given to renegotiation or development of alternative payment schedules.

University of Waterloo: The technology transfer office's template for future agreements has eliminated the interest penalty provision because it believes that the provision to terminate an agreement for non-payment is much more of an incentive to pay than collecting a nominal interest penalty.

Toward Better Accountability

Follow-Up on Chapter 5, *2015 Annual Report*

RECOMMENDATION STATUS OVERVIEW					
	# of	Status of Actions Recommended			
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2	1	1		
Recommendation 2	1	1			
Recommendation 3	1		1		
Recommendation 4	1		1		
Recommendation 5	1		1		
Total	**6**	**2**	**4**	**0**	**0**
%	**100**	**33**	**67**	**0**	**0**

Overall Conclusion

According to the information Treasury Board Secretariat provided to us, as of July 26, 2017, 33% of actions we recommended in our *2015 Annual Report* had been fully implemented. For example, Treasury Board Secretariat issued an update to the Agencies and Appointments Directive in July 2016 that stipulated that a Minister must approve an agency's annual report (and, where required by statute, table it in the Legislature) within 60 days of receiving it from the agency. The annual report must also be posted on the agency's or a government website within 30 days of tabling (if the report was tabled) and within 30 days of the Minister's approval (if it was not tabled).

Treasury Board Secretariat had made progress in implementing the remaining 67% of the recommendations. For example, it was in the process of amending the legislation covering agencies to streamline the annual reports approvals and public release process. In addition, Treasury Board Secretariat was developing tools to help track agencies' compliance with their deadlines, and providing training and education to ministries regarding agency annual reporting.

The status of actions taken on each of our recommendations is described in this report.

Background

Overview of Provincial Agencies

Provincial agencies undertake a variety of activities in the public interest, such as providing goods and services. They operate, to varying degrees, at arm's length from the government.

The Government of Ontario grants provincial agencies the authority and responsibility to perform their public functions or services. It establishes agencies through an act, a regulation of an act or an Order-in-Council (OIC), which is an order that the government issues to, for example, bring a law into force or appoint members to the board of an agency.

Agencies' governance structures are defined by Management Board of Cabinet directives issued under the *Management Board of Cabinet Act* and consist of three key parties:

- the responsible Minister;
- the governing board; and
- the agency's management.

Although agencies are not part of a ministry, they are accountable to the responsible Minister (and ultimately to the Legislature and the public) for fulfilling their legislative obligations, managing effectively the resources they use and maintaining the appropriate standards for any services they provide. To perform their duties, they either use public funds allocated to them by the government or generate their own funds.

An agency's annual report details the agency's activities and expenditures. This enables the government and the public to know whether the agency has achieved its goals and how it has spent its money.

In some cases, the legislation, regulation or OIC that established the agency specifies that the agency must produce an annual report. It may also specify when the annual report must be submitted to the responsible Minister.

In some cases, a Memorandum of Understanding (MOU) between the agency and its responsible Minister specifies when the annual report is to be submitted.

Given that legislation stipulates reporting requirements for only a limited number of agencies, and in some cases does not prescribe timelines, the Management Board of Cabinet has issued directives that formally require the preparation of annual reports by given deadlines. Treasury Board Secretariat is responsible for ensuring that provincial agencies comply with these directives.

The Legislature's Standing Committee on Government Agencies reviews proposed appointments to the boards of directors and other key roles of provincial agencies, as well as reviewing agency operations. It reports its findings and recommendations to the Legislature.

The Directives Governing Agency Annual Reporting

Two Management Board of Cabinet directives for agencies relating to annual reporting had been issued when we conducted our work for the *2015 Annual Report*. One, the Agency Establishment and Accountability Directive, was in effect until February 2015, and the second, the Agencies and Appointments Directive, succeeded and replaced the Agency Establishment and Accountability Directive as of February 2015.

Prior to February 2015—Agency Establishment and Accountability Directive

Under this directive, agencies (except advisory agencies and agencies with differing legislated requirements) were required to submit an annual report to the responsible Minister:

- within 120 days of the end of their fiscal year if they had a governing board; or
- within 90 days of the end of their fiscal year if they did not have a governing board.

Annual reports were required to include the agency's financial statements, as well as actual results, variances against estimates and explanations of those variances.

February 2015—Agencies and Appointments Directive

Under the new Agencies and Appointments Directive, issued in February 2015, in addition to the financial reporting required by the old directive, annual reports must contain a description of the agency's activities over the year, an analysis of operational and financial performance, and a discussion of performance targets achieved and of action to be taken when targets are not met.

Our 2015 Main Findings on Agency Annual Reporting

The following are the main findings in our *2015 Annual Report*:

- The annual reports of many of the 57 agencies in our sample were not submitted to the responsible Minister in time and not tabled in time over the previous three years. For example, only 58% of the agencies sampled submitted their annual reports to their responsible Minister within 120 days after the agency's fiscal year-end. Only 5% of annual reports were tabled within six months after the agencies' fiscal year-end, while 68% were tabled more than 12 months after the year-end, and 6% had not been tabled at all.
- Deadlines for submitting and tabling annual reports were not consistent. The agencies that report under the requirements of legislation, a regulation, an OIC or an MOU could have different reporting timelines than the other agencies subject to the requirements of the Management Board of Cabinet directive.
- The Agencies and Appointments Directive issued in February 2015 eliminated the requirement for Ministers to table provincial agency annual reports in the Legislature. One hundred and one provincial agencies fell under a statue that required them to table their annual report in the Legislature.
- The Agencies and Appointments Directive also did not specify a deadline for Ministers to release reports, either through tabling or by posting them on websites. As a result, an annual report could potentially sit in a Minister's office for months or even years without being released, and the Minister would not be in contravention of the directive.

We made five recommendations, consisting of six actions needed for improvement, and received Treasury Board Secretariat's commitment that it would take action to address them.

Standing Committee on Public Accounts

In April 2016, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2015 chapter on Toward Better Accountability. In December 2016, the Committee tabled a report in the Legislature resulting from this hearing. The Committee endorsed our findings and recommendations. The Committee also made six of their own recommendations, consisting of a total of eight action items. Treasury Board Secretariat reported back to the Committee in April 2017. At the time of our follow-up, it had fully implemented four of the action items recommended by the Committee and it was in the process of implementing the remaining four action items. The Committee's recommendations and our follow-up on them are found in Chapter 3, **Section 3.07**.

Status of Actions Taken on Recommendations

We conducted assurance follow-up work between March 3, 2017 and July 26, 2017, and obtained

written representation from Treasury Board Secretariat on September 12, 2017 that it had provided us with a complete update of the status of the recommendations we made in the *2015 Annual Report*.

Significant Delays in the Public Release of Annual Reports

Recommendation 1

To ensure agencies effectively demonstrate their accountability to their responsible Minister, the Legislature and the public, Treasury Board Secretariat, in conjunction with the ministries, should ensure that all agencies submit their annual reports within legislated time frames or the directed 90 or 120 days.

Status: Fully implemented.

Details

In our 2015 report, we found that less than a quarter of agencies sampled had legislated time frames for submitting their annual reports. The legislated time frames for these agencies to submit their annual reports to the responsible Minister varied from 90 days to 183 days after the end of the agency's fiscal year. Of the agencies sampled, five out of the 14 agencies with legislated time frames met their legislated requirements for submitting their annual reports. Overall, 58% of the agencies sampled submitted their annual reports to the responsible Minister within 120 days after the agency's fiscal year-end.

To ensure that all agencies submit their annual reports in time, Treasury Board Secretariat launched a new compliance tracking module in May 2017. Ministries continue to be responsible for tracking the status of documents for their agencies as they move through the approval process, but now have to use the module to report to Treasury Board Secretariat when key milestones are reached. The compliance tracking module gives Treasury Board Secretariat real-time information on all agencies' status in meeting their deadlines. Treasury Board Secretariat is using it to let ministries know that deadlines are approaching.

In addition, in June 2017, Treasury Board Secretariat began educating and training staff in ministries and Ministers' offices to improve their awareness of the requirements and timelines of the Agencies and Appointments Directive, to provide better insights into challenges and opportunities to enhance the annual report submission process, and to reduce potential delays when there is staff turnover at ministries.

In addition, ministries should co-ordinate with their Ministers to ensure the Minister tables and/or otherwise makes public the annual reports in a timelier manner than in the past.

Status: In the process of being implemented by October 2017.

Details

In our 2015 report, we found that only 5% of provincial agencies' annual reports, from 2012 to 2014, were tabled in the Legislature within six months of the agency's fiscal year-end. However, as previously indicated, 58% were provided by agencies to ministries within the required timeline in accordance with the Agency Establishment and Accountability Directive. This indicated to us that delays within the Minister's office mainly contributed to the delays in tabling of the annual reports.

Treasury Board Secretariat issued an update to the Agencies and Appointments Directive in July 2016 that stipulated that a Minister must approve an agency's annual report (and, where required by statute, table it in the Legislature) within 60 days of receiving it from the agency.

In addition, as previously discussed, Treasury Board Secretariat had developed a compliance tracking module for reviewing compliance results and sharing them with officials at various levels at the ministries and Ministers' offices. The intent is for progress to be presented on a regular basis to the Assistant Deputy Minister and Director Committees on Agency Oversight. At the time of our follow-up, Treasury Board Secretariat was planning to proactively reach out to ministries to ensure they meet their deadlines. For example, Treasury

Board Secretariat wants ministries to report not only their compliance, but also steps they are taking to ensure compliance, mitigation plans for areas/agencies at risk of being late, and/or remedial plans when agencies do not comply. This functionality was not yet available within the tracking module. Refinements and enhancements to the process and module were to be operational in October 2017.

Maximum Time Frames for Ministers to Approve Annual Reports for Public Release Eliminated for Most Agencies

Recommendation 2

To ensure that the annual reports of provincial agencies are released promptly, Treasury Board Secretariat should advise the government to consider revising the Agencies and Appointments Directive to specify the period of time for ministerial approval of agency annual reports after ministers receive them.

Status: Fully implemented.

Details

We reported in 2015 that, since there were no requirements for when a Minister must approve an annual report after receiving it, an annual report might never be made public if a Minister does not (unintentionally or by choice) approve it.

In July 2016, Treasury Board Secretariat changed the Agencies and Appointments Directive to stipulate that the responsible Minister must approve an agency's annual report (and, where required by statute, table it in the Legislature) within 60 days of receiving it from the agency. The annual report must also be posted on the agency's or a government website within 30 days of tabling or within 30 days of the Minister's approval if tabling is not required.

Directive No Longer Requires Annual Reports to Be Tabled

Recommendation 3

To increase the accountability of publicly funded provincial agencies after the directive was changed so that annual reports are no longer required to be tabled, Treasury Board Secretariat should advise the government to establish a process to ensure that all elected officials are notified when agencies publicly release their annual reports.

Status: In the process of being implemented by April 2018.

Details

We noted in our 2015 report that, notwithstanding Ontario's move away from tabling reports in the Legislature to posting them on websites, not tabling an agency's annual report may result in some loss of accountability and Legislature oversight. While posting a report on a website gives the public access to the report, tabling a report brings agencies' annual results to the attention of all elected officials, who can hold these agencies—which are responsible for billions of dollars in public funds—accountable. We therefore recommended that, in the absence of the tabling requirement, elected officials should be notified when agencies' annual reports are made public.

At the time of our follow-up, Treasury Board Secretariat was working on changes to legislation for all agencies so that legislation aligns with the timelines in the Agencies and Appointments Directive. In addition, Treasury Board Secretariat received government approval to update the Agencies and Appointments Directive to require tabling of all provincial agencies annual reports. This will result in elected officials being notified through the tabling process when an annual report is publicly released. Treasury Board Secretariat expects the Agencies and Appointments Directive will be updated by April 2018.

Requirements for Agency Annual Reports Lack Consistency

Recommendation 4

To ensure that provincial agencies are consistent in following the Agencies and Appointments Directive, Treasury Board Secretariat, in conjunction with Management Board of Cabinet, should consider amending the legislation governing some agencies to eliminate any inconsistencies with the directive, or introducing legislation applicable to all agencies that covers the preparation and tabling date or public release date for all annual reports.

Status: In the process of being implemented by fall 2017.

Details

We reported in 2015 that it is confusing for the reporting timelines of an agency and its responsible Minister to potentially be found in several different places—the establishing statute, a regulation, an Order-in-Council (OIC), a Memorandum of Understanding (MOU) or the Agencies and Appointments Directive. For example, an agency may mistakenly follow the Agencies and Appointments Directive for its reporting requirements when it should be following its establishing statute. We therefore recommended that consideration be given to having consistent reporting requirements for all agencies.

In late 2016, Treasury Board Secretariat undertook an in-depth legislative review to identify all statutory references to both the preparation and tabling of provincial agency annual reports. The review yielded 129 references to 119 provincial agencies associated with 19 ministries in 63 statutes, 10 regulations and five OICs.

In December 2016, Treasury Board Secretariat received approval from Treasury Board and Management Board of Cabinet to proceed, in collaboration with the 19 ministries, with the process of changing legislation to ensure consistent timelines and alignment with the Agencies and Appointments Directive.

At the time of our follow-up, Treasury Board Secretariat was proposing that legislative amendments include:

- standardizing all statutory language relating to provincial agency annual report production; and
- eliminating inconsistencies with the Agencies and Appointments Directive in agencies' governing legislation (simultaneously updating the Agencies and Appointments Directive to include a requirement to table).

At the time of our follow-up, Treasury Board Secretariat was planning to seek government approval of the legislative amendments in fall 2017.

Standing Committee on Government Agencies Has Not Reviewed Many Agencies, Boards and Commissions Since 1996

Recommendation 5

To ensure the ongoing accountability and transparency of the operations of provincial agencies, Treasury Board Secretariat should consult the Legislative Assembly of Ontario on how best to ensure the Standing Committee on Government Agencies is provided with all agencies' annual reports when they are made public, as the annual reports can assist the Standing Committee in determining which agencies it considers for review.

Status: In the process of being implemented by April 2018.

Details

We reported in 2015 that there is no requirement that all provincial agencies' annual reports be referred to the Legislature's Standing Committee on Government Agencies for review. Under the Agencies and Appointments Directive, not all annual reports are required to be tabled, and therefore the Committee receives only the reports of those agencies whose enabling legislation or a Memorandum of Understanding requires them to table their annual reports. As such, Committee members might not be receiving full information on agencies' annual results. It is important for the Committee to have such information as it could factor into its selection of which agencies to review.

At the time of our follow-up, Treasury Board Secretariat was working on an approach to notify all members of the Legislative Assembly, elected officials and the Standing Committee on Government Agencies, to implement this recommendation by:

- amending the Agencies and Appointments Directive, and
- seeking government approval for legislating timelines that are consistent with the Agencies and Appointments Directive.

In August 2017, Treasury Board Secretariat received government approval to update the Agencies and Appointments Directive to require that all provincial agencies' annual reports be tabled. This will result in elected officials being notified through the tabling process when an annual report is publicly released. Treasury Board Secretariat expects the Agencies and Appointments Directive to be updated by April 2018.

Chapter 2

Section
2.01

Community Care Access Centres—Financial Operations and Service Delivery

Follow-Up on *September 2015 Special Report*

RECOMMENDATION STATUS OVERVIEW						
	# of	Status of Actions Recommended				
	Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1	1				
Recommendation 2	1	0.5				0.5
Recommendation 3	2		2			
Recommendation 4	2		2			
Recommendation 5	1	1				
Recommendation 6	2		2			
Recommendation 7	1	1				
Recommendation 8	1	1				
Recommendation 9	1	1				
Recommendation 10	1		1			
Recommendation 11	1	1				
Recommendation 12	3	1	2			
Recommendation 13	2	2				
Recommendation 14	1		1			
Recommendation 15	2	1	1			
Recommendation 16	1		1			
Total	**23**	**10.5**	**12**	**0**	**0**	**0.5**
%	**100**	**46**	**52**	**0**	**0**	**2**

Overall Conclusion

Note: Ontario's Community Care Access Centres (CCACs) were absorbed by the Local Health Integration Networks (LHINs) between May and June 2017.

According to the information the Ministry of Health and Long-Term Care (Ministry), Health Shared Services Ontario and the CCACs (now part of the LHINs) provided to us, as of June 30, 2017, 46% of the actions we recommended in our *2015 Special Report* had been fully implemented.

The Ministry, Health Shared Services Ontario and the CCACs have made progress in implementing 52% of the recommendations. The Ministry, Health Shared Services Ontario and the CCACs have fully implemented recommendations relating to areas such as earlier finalization of annual funding, following a common CEO compensation framework, changing rapid-response nurses staffing schedules to provide coverage over the weekend, developing staff caseload benchmarks for direct-nursing services, and developing performance indicators for these services. As well, the organizations were in the process of implementing recommendations relating to areas such as analyzing hospital readmission trends for all patients who have received rapid-response nursing services, putting harmonized billing rates for CCACs' contracted service providers in contracts, and developing standard data requirements to measure the cost-effectiveness of care protocols.

Another significant change that was continuing throughout our follow-up period was the streamlining of the service delivery model for home and community care. With the passage of the *Patients First Act, 2016*, the CCACs were dissolved and the responsibility for home and community care was transferred to the LHINs. By the time this follow-up report is released, CCACs would cease to exist.

The status of actions taken on each of our recommendations is described in the report.

Background

At the time of our 2015 audit, Ontario's 14 Community Care Access Centres (CCACs) were not-for-profit provincial government organizations that helped people access home- and community-based health care and related social services outside a hospital setting. These services included nursing, personal support, physiotherapy and occupational therapy, for example. Each CCAC was overseen and funded by a Local Health Integration Network (LHIN).

Following our *2015 Special Report*, Ontario passed the *Patients First Act* in December 2016. The Act expands the mandate of the LHINs as the single point of accountability for home and community care. At the time of our follow-up work, the Province was in the process of dissolving the CCACs and transferring their staff, resources and responsibilities to the LHINs.

In the 2016/17 fiscal year, CCACs spent about $2.7 billion ($2.4 billion in 2013/14), or about 5% of Ontario's total health-care expenditures. In the 2016/17 fiscal year, they served about 760,000 people (compared to about 700,000 people in 2013/14).

CCACs employed mostly care co-ordinators who determined the eligibility for and appropriateness of patient care and support, which was ultimately delivered, for the most part, by about 160 contracted service providers. These service providers ranged in size from individual professional contractors to large multi-disciplinary corporations operating in several provinces. In the 2016/17 fiscal year, six of the 14 (compared to five of the 14 in 2014/15) CCACs employed their own professionals to provide therapy services rather than contracting with external service providers.

In 2011, the Ministry of Health and Long-Term Care (Ministry) directed all CCACs to begin providing direct patient services in three program areas (rapid-response nurses, mental health and

addiction nurses, and palliative care nurse practitioners). Under these programs, CCACs themselves employed and supplied direct-care nurses.

The Ontario Association of Community Care Access Centres (Association), funded by the Ministry and the CCACs, represented all CCACs. The Association provided shared services, such as procurement, policy and research, and information management to the CCACs.

In March 2014, the Standing Committee on Public Accounts requested that we review areas that included expenses, compensation, program effectiveness and procurement of home- and community-care services at the CCACs, their contracted service providers, and the Association. Among our findings included in our September 2015 *CCACs—Financial Operations and Service Delivery* special report:

- **Between 2009/10 and 2013/14, CCAC expenses increased 26% to provide more hours of care to patients with more chronic and complex health needs**—Combined spending by the 14 CCACs rose 26% between April 1, 2009, and March 31, 2014. About 62% of CCAC spending went to contracted service providers to supply services such as nursing, personal support and therapy. In the year ending March 31, 2014, these contracted service providers received from the 14 CCACs a combined total of about $1.5 billion, up 28% from the year ending March 31, 2010. Over the same period, the hours of care rose by 35% and the number of visits rose by 10%. Also over the same period, CCACs served a patient population with much more chronic and complex health issues. (The number of chronic and complex patients increased by 89% and 77%, respectively.) Spending by the Association increased by 6% over the same period.
- **Costs that CCACs considered to be for "direct patient care" included items that did not involve direct interaction with patients, such as service providers' overhead and profit**—CCACs follow the provincial health-cost-reporting guidelines and include all expenses they incur to care for patients as "direct patient care costs." This encompasses all expenses paid to CCACs' own clinical staff plus all the expenses they pay to contracted service providers—including the service providers' overhead costs and profits. Profits are defined as the difference between revenue from CCACs and expenses incurred to provide CCAC directed services, reported by both for-profit and not-for-profit service providers. (CCACs exclude their own overhead and administrative costs in reporting direct patient care costs). Using these rules, CCACs reported spending an average of 92% of their expenses on direct patient care in the year ending March 31, 2014. However, when service-provider overhead costs and profits are excluded from the calculation, the average falls to 81%. Furthermore, within the health-care sector, the definition of the term "direct care" varies. One stricter definition includes only those activities that involve direct interaction with patients. It excludes activities that might *influence* patient care but do not involve interaction, such as documenting patient care activity, travel and staff training. Under this definition that excludes both CCAC and service-provider spending on anything but direct patient interaction, CCACs spent on average 71.5% of total expenditures on direct patient care in the year ending March 31, 2014. If we include the costs of care-co-ordinator travel (which is inherent to home and community care) and documenting patient care (which is required under professional practice standards), CCACs spent an average of 72% of their expenses on direct patient care in the year ending March 31, 2014. Regardless of the definition used, spending on direct patient care benefits patients only to the extent that the care is effective and results in better patient outcomes. Neither the Ministry nor the CCACs and their Association had analyzed how given amounts of spending on any given

patient-care activities correlate with the patient outcomes that result. Such analysis would help CCACs prioritize their spending, and allocate sufficient resources and funds to the most effective patient-care activities.

- **CCAC CEOs' salaries up 27% between 2009 and 2013**—The 14 CCACs paid their CEOs an average of $249,000 each in 2013 (the most recent year that data was available during our audit), up 27% compared to the average in 2009. Excluding one-time payouts such as severance and vacation pay, the annualized salaries of CEOs at CCACs averaged $245,300 in 2013, also up 27% since 2009. This was 43% more than what service providers in 2013 paid their executives who they claimed to have similar responsibilities and duties as the CCACs' CEOs. However, in many cases CEOs at CCACs do in fact have different responsibilities and oversee different kinds of organizations than their service-provider CEO-equivalents. In these cases, comparing their compensation is more of an "apples-to-oranges" exercise than an "apples-to-apples" one.
- **Not all CCAC CEOs followed the common compensation framework designed specifically for them; service-provider CEOs followed different frameworks**—While all CCACs agreed to adopt a common CEO compensation framework that was developed in 2012, three had not implemented it at the time of our fieldwork. In addition, compensation for non-CEO senior executives was inconsistent, with CCACs using a variety of different compensation frameworks. Among the nine service providers we visited in this audit, all used different compensation frameworks for their executives (both CEOs and non-CEOs).
- **CCAC nurses and therapists were better paid than their service-provider counterparts in the year ending March 31, 2014**—We found that CCAC nurses were paid on average $40.80 an hour, compared to an average of $30 an hour for nurses employed by service providers. The difference in pay is due to nursing unions negotiating different pay rates with CCACs and service providers. Also, the two CCACs we visited that employed their own in-house therapists paid their therapists significantly more than what they paid service providers for similar services. At one CCAC, the higher pay was because the therapists served a large, sparsely populated geographic area without any service providers (such areas do not have a stable enough volume of work to keep service-provider staff fully employed). At the other, the higher pay was because the therapists' responsibilities were greater than those given to service-provider therapists.
- **No cost/benefit analysis of CCAC nurses directly providing services under three new programs (rapid response, mental health and addiction, and palliative care) was prepared before the programs were launched, and the effectiveness of these programs has not been evaluated**—The Ministry implemented three new programs in 2011 that required CCACs to hire their own nurses and nurse practitioners to directly provide services without the involvement of service providers. However, the Ministry did not first analyze whether service providers could provide the same service more cost-effectively. The programs have now been in place for more than three years but have not been assessed to determine whether they have met their goals. As well, even though both the Ministry and the Association developed some performance indicators for the three programs, most of these indicators did not measure program outcomes, and there were no targets set to ensure performance was meeting expected levels. The rapid-response nurses are supposed to visit patients at home within 24 hours of their being discharged from hospital, but 47% of patients were not visited within 24 hours. One CCAC we visited explained that this standard is not always

met because many patients are discharged on Fridays and there is no nursing coverage on weekends in some parts of the region.

- **Billing rates for the same service categories varied by service provider and CCAC**—Before February 2008, CCACs across Ontario used a competitive process to procure contracted services. The Ministry suspended this process because it heard that patients were concerned about losing their existing support workers whenever a competitive procurement process resulted in a change of service provider. During the use of the competitive process, different billing rates for services were established. Those billing rates did not change, even after CCACs amalgamated from the original 42 to the 14 in 2007. As a result, rates varied widely across CCACs, with some rates in certain service categories being more than double that of others for the same services. Moreover, some CCACs paid the same service provider different billing rates for the same service even within the same CCAC.
- **Service providers use a variety of clinical-care protocols; use of outcome-based pathways do not always result in cost savings**—There are no province-wide standard clinical-care protocols for service providers to use, and some CCACs require service providers to use a different care protocol for their patients than the service providers use for patients in other CCACs with the same type of medical condition. The Association has overseen the development of "outcome-based pathways" for specific conditions, such as wound care and hip and knee replacements, in addition to clinical-care protocols. These pathways state when specific improvements in a patient's recovery ("outcomes") should occur. By establishing and using these pathways, CCACs should, in time, be able to shift from paying service providers hourly or per visit to paying them based on achieving specified outcomes. This approach, in turn, should better enable the Ministry to adjust its health-care funding to hospitals and CCACs. Five CCACs tested the three pathways developed so far, but the Association was still analyzing the results at the time of our audit. As well, although achieving cost savings is not the sole objective for adopting clinical-care protocols and outcome-based pathways, we examined data on the treatment cost per patient before and after the implementation of clinical-care protocols at the three CCACs we visited, and found that the implementation of these tools did not always result in cost savings.

We made 16 recommendations, consisting of 23 actions needed for improvement, and received commitments from the Ministry, the Ontario Association of Community Care Access Centres and the three CCACs we visited during the audit (Central, North East, and Hamilton Niagara Haldimand Brant) that they would take action to address them.

Important Events Following Our 2015 Audit

In August 2016, the Ministry established a Levels of Care Expert Panel (Expert Panel) to provide advice and recommendations on the development and implementation of a levels-of-care framework in Ontario. The Expert Panel is co-chaired by a physician and a vice president of Health Quality Ontario (an agency created in 2005 to provide advice to the Minister of Health and Long-Term Care on the quality of health care), and a senior director at the former Toronto Central CCAC. The framework is intended to introduce common home- and community-care assessment and care planning practices, and is expected to have significant implications for care co-ordination.

In June 2017, the Expert Panel submitted a final report, *Thriving at Home: A Levels of Care Framework to Improve the Quality and Consistency of Home and Community Care for Ontarians*, to the Ministry. The Ministry expects to work with sector partners to plan for implementing the recommendations

contained within this report through the summer and fall of 2017.

In December 2016, the *Patients First Act, 2016*, was passed. The Act expands the mandate of LHINs as the single point of accountability for home and community care through the transfer of CCAC staff, resources and services to the LHINs. By streamlining the delivery of services and removing a layer of administration within the CCACs, the Ministry expects the health-care system to be more responsive to people's needs. The transfer of all 14 CCACs into LHINs took place in stages, region by region, in May and June 2017.

As well, on March 1, 2017, Health Shared Services Ontario officially became operational. The organization, chaired by an associate deputy minister of the Ministry of Health and Long-Term Care and led by the former chief executive officer of the Ontario Association of Community Care Access Centres (Association), replaced the Ontario Association of Community Care Access Centres and two other former LHIN service organizations. Health Shared Services Ontario is tasked with supporting LHINs with health system integration and providing key shared service functions and supports to the LHINs.

Status of Actions Taken on Recommendations

We conducted assurance work between April 1, 2017, and June 30, 2017. We obtained written representation from the Ministry of Health and Long-Term Care (Ministry), Health Shared Services Ontario, and the three Local Health Integration Networks (Central, North East, and Hamilton Niagara Haldimand Brant) that have assumed the responsibilities of the former CCACs we visited, that effective September 1, 2017 they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Overall Expenses of CCACs, Service Providers and Ontario Association of CCACs

Recommendation 1

To ensure Community Care Access Centres (CCACs) can properly plan to meet patient-care needs, the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, should finalize the annual funding each CCAC will receive before the fiscal year begins or as early in the current fiscal year as possible.

Status: Fully implemented.

Details

The majority of home care services funding was a base budget that continued from one year to the next, but the finalized budget was subject to change during the year depending on whether the Ministry adjusted funding or implemented new initiatives. The Ministry informed LHINs of changes (an increase) in CCAC funding in April 2017 for the fiscal year 2017/18, compared to November 2014 three fiscal years prior.

Executive Compensation, Executive and Board Expenses

Recommendation 2

To ensure compensation paid to all Community Care Access Centre Chief Executive Officers (CEOs) is consistent and defendable, all Community Care Access Centres should follow a common CEO compensation framework and be required to report any exceptions to their respective Local Health Integration Networks.

Status: Fully implemented following the common compensation framework; reporting to LHINs is no longer applicable.

Details

We noted in our 2015 audit that while all 14 CCACs agreed to put in place the common CEO compensation framework developed in 2012, one was still in the process of implementing it and two had not yet implemented it at the completion of our audit.

Since the completion of our audit, all CCACs had implemented the compensation framework by the end of 2015.

As all 14 CCACs had completely transitioned to LHINs by the end of June 2017, the second part of our recommendation—that CCACs be required to report any exceptions to the common CEO compensation framework to their respective LHINs—is no longer applicable.

Direct Patient-Care Costs

Recommendation 3

To ensure Community Care Access Centres (CCACs) can consistently identify, compare and manage care co-ordinators' time and activities:

- *the Ontario Association of Community Care Access Centres, in conjunction with all CCACs, should update the standard care co-ordinator time-tracking report and establish benchmarks for time spent on various care co-ordination activities;*
  Status: In the process of being implemented by December 2018.

Details

The Association (now Health Shared Services Ontario) and the CCACs had begun developing benchmarks for care co-ordinators in the fiscal year 2015/16, including identifying weekly benchmarks for the number of patient visits. They had put this work on hold pending the outcome of the Ministry's initiative to develop a levels-of-care framework that would introduce common home- and community-care standards across the province. The LHINs expect to complete the review of the current care co-ordination benchmarks and guidelines and the associated reporting of care co-ordinators' time as part of the implementation of the levels-of-care framework by December 2018.

At the time of our follow-up, the individual CCACs we visited had implemented some initiatives to monitor care co-ordinators' time and activities. For example, one CCAC started identifying care co-ordinators' workload targets and tracking care co-ordinators' workload relating to their work with primary-care providers; another CCAC updated the care co-ordinators' workload list in its information system to better reflect the work that care co-ordinators do daily and for new initiatives.

- *all CCACs should use the updated standard care co-ordinator time tracking report.*
  Status: In the process of being implemented by December 2018.

Details

At the time of the follow-up, the levels-of-care framework had just been completed. The LHINs plan to review the framework and review the reporting of care co-ordination time by December 2018.

Recommendation 4

To ensure that funds are allocated where they will make the most positive difference for patient care, Community Care Access Centres, in collaboration with the Ontario Association of Community Care Access Centres, should:

- *analyze the relationship between specific patient-care activities—whether pertaining to direct patient contact or supportive services—and patient outcomes;*
  Status: In the process of being implemented by December 2018.

Details

In 2016, the Association (now Health Shared Services Ontario) began looking at the impact of personal support services on patient outcomes. Personal support services were identified as the starting point because they represent the highest-volume service provided by CCACs across the province. This analysis looks at several key patient outcome indicators, including reduced caregiver

distress and lower rates of application to long-term care homes.

Another area where the sector had begun work in understanding the impact of care on patient outcomes is wound care. One of the goals in outcome-based pathways for wound care is to standardize the delivery of best practices and reporting in wound care. This work was put on hold pending the completion of provincial work led by Health Quality Ontario to develop wound care quality standards that would apply across the health system. The quality standards are expected to be released by the end of 2017. The Ministry is currently planning for implementation of the standards and will be collaborating with the LHINs in key priority areas of implementation in home and community care and other sectors. The LHINs expect that they will implement these quality standards in home and community care by December 2018.

The individual CCACs we visited in our 2015 audit had also undertaken some work to analyze the relationship between specific patient-care activities and patient outcomes. For instance, one CCAC completed an analysis on the outcomes of wound-care patients who received care at home versus those who received care at the CCAC's clinics. Based on the results of this analysis, which looked at outcome, heal time, utilization of services, and cost, the CCAC was better informed in its efforts to shift appropriate patients to care in clinic settings. Similarly, another CCAC changed the way it assigned therapy staff throughout the geographic area to reduce travel time, and used templates in the information system to speed up documentation for therapy services, both of which helped reduce patient wait time for these services.

- *use this information to set resource and funding benchmarks for key patient-care activities.*
  Status: In the process of being implemented by December 2018.

Details

At the time of our follow-up work, the Expert Panel had just submitted the levels-of-care framework to the Ministry. This framework contains guidance on resource benchmarks for home- and community-care patient activities. The LHINs expect that they will set resource and funding benchmarks for key patient-care activities by December 2018, following the implementation of the levels-of-care framework and Health Quality Ontario's quality standards.

Recommendation 5

To ensure that patients receive equitable and high-quality home- and community-based health care in the most cost-effective manner, the Ministry of Health and Long-Term Care should revisit the service delivery model that currently involves 14 Community Care Access Centres and about 160 private-sector for-profit and not-for-profit service providers.

Status: Fully implemented.

Details

In December 2016, the government passed the *Patients First Act, 2016*. This Act expands the mandate of LHINs to include the service management and delivery of home and community care. The 14 CCACs transferred their staff, resources and responsibilities into the LHINs in May and June 2017 and subsequently dissolved. Service-provider organizations that held contracts with the former CCACs will continue their contractual relationship with the LHINs. The LHINs will be managing these service contracts. The LHINs are also in the process of establishing sub-regions and aligning service-provider organizations and the delivery of contracted services with the sub-region boundaries.

Compensation of Nurses and Therapists at CCACs and Contracted Service Providers

Recommendation 6

To ensure that the in-house direct-nursing programs and therapy services are delivered as economically as

possible, the Ministry of Health and Long-Term Care, in conjunction with the Community Care Access Centres (CCACs), should:

- *study the compensation paid to CCAC direct-nursing and therapist staff to confirm it is commensurate with the functions performed;*
  Status: In the process of being implemented by March 2018.

Details

CCAC (now LHIN) direct-nursing staff are unionized and compensation is set through the collective bargaining process. CCACs had begun collective agreement negotiations in fall 2016 and LHINs will continue negotiations through 2017 and 2018 as current contracts with the unions representing these staff expire. The home- and community-care sector indicated that negotiated rates for direct-nursing and therapists are based on recent trends in the labour market. The LHINs expected to finalize collective agreement negotiations in 2018.

- *incorporate into their assessment of possible changes to the service-delivery model under* ***Recommendation 5*** *an evaluation that includes information from all 14 CCACs of whether service-provider organizations or directly employed staff would be able to more cost-effectively deliver the direct-nursing programs (Rapid Response Nursing Program, Mental Health and Addictions Nursing Program, and Palliative Care Nurse Practitioner Program).*
  Status: In the process of being implemented by March 2020.

Details

At the time of our follow-up work, the CCACs we visited noted that they have strengthened their capacity to report on the performance metrics for the direct-nursing programs. Specifically, the CCACs have improved on the indicators, targets, and data collection system, as well as the training to support the implementation of these improvements. The results from this work are available to support the Ministry in evaluating the direct-nursing services model.

In December 2016, the government passed the *Patients First Act, 2016*. This Act expands the mandate of LHINs to include the service management and delivery of home and community care. The 14 CCACs were dissolved and their staff, resources and responsibilities were transferred into the LHINs in May and June 2017. Following this transition, the Ministry expects to focus on further improvements to the delivery model for home- and community-care services, including assessing whether direct-nursing programs would be delivered more cost-effectively by service-provider organizations or by directly employed staff.

Comparison of Effectiveness of Home-Care Visits by CCAC Staff and Contracted Service-Provider Staff

Recommendation 7

To ensure that medically complex children, and frail adults and seniors with complex needs or high-risk characteristics receive rapid-response nursing services on a timely basis after discharge from hospitals, Community Care Access Centres should arrange rapid-response nurse staffing schedules, including staffing consideration on the weekend when needed, that take the actual times of when patients are discharged from hospital into account.

Status: Fully implemented.

Details

We noted in our 2015 audit that all 14 CCACs reported that their rapid-response nurses failed to meet the standard of visiting patients at home within 24 hours following discharge from hospital in the year 2013/14. In our 2015 audit, one of the three CCACs we visited explained that the standard was not always met because many patients were discharged on Fridays, but there was no nursing coverage on weekends in some parts of the region. At the time of our follow-up, all three CCACs had

implemented changes to staff schedules to provide coverage on weekends, based on hospital discharge patterns and demand, with one CCAC having established weekend scheduling in February 2016. As well, two of the three CCACs noted that they monitor whether rapid-response nurses visit patients within 24 hours and 48 hours of being discharged from hospital.

Recommendation 8

To ensure that patients eligible for rapid-response nursing are treated fairly and equitably no matter where in the province they live, Community Care Access Centres should follow all provincial program guidelines.

Status: Fully implemented.

Details

At the time of the follow-up, all three CCACs we visited were providing rapid-response nursing services seven days a week as required by the provincial program guidelines. One CCAC that was not servicing children with complex needs at the time of our 2015 audit began doing so in February 2017 in selected high-volume geographic areas within the region.

Recommendation 9

To reduce the risk that the conditions of school-age children with mental-health issues will worsen unnecessarily, Community Care Access Centres should consider expanding the availability of mental health and addictions nursing services to school-age children in the summer months.

Status: Fully implemented.

Details

At the time of our follow-up, all three CCACs we visited had made mental health and addictions nursing services available to school-age children in the summer months. These CCACs used various methods to expand access to their services in the summer months, including connecting patients with nurses through the Ontario Telemedicine Network technology, reminding school boards that CCAC services continue to support children over the summer even when schools are closed, and linking students transitioning to college or university with community agencies, primary-care providers, and/or supports in their new schools.

Recommendation 10

To ensure the cost-effectiveness of medication reconciliation services, Community Care Access Centres should review all the ways their individual patients can receive these services and choose only the most effective and economic option for each patient.

Status: In the process of being implemented by December 2017.

Details

In our 2015 audit, we found that while the rapid-response nurses provide medication reconciliation services as part of their regular duties, the same service is being offered by other programs, with some costing up to 70% more than others. After our audit, all CCACs agreed on a standard policy for medication management in April 2016 and medication reconciliation in February 2017.

At the time of this follow-up, all CCACs were in the process of implementing the provincial policy and providing training to their staff in this regard. In most cases, care co-ordinators will identify patients who meet certain criteria according to the standard policy and refer them to the most appropriate medication reconciliation service, either through a community pharmacy, a primary-care provider, a private-sector service provider contracted with the CCACs, or the CCAC's own direct-nursing services staff. At the time of our follow-up, all three CCACs we visited in the 2015 audit had also developed local policies on medication management and reconciliation that were or will be aligned with the provincial policy by December 2017.

Recommendation 11

To contribute to direct-nursing programs' improvement, where they are functioning at optimal levels and patients are receiving equitable level of services, Community Care Access Centres should develop staff-caseload benchmark ranges and monitor actual results against these ranges.

Status: Fully implemented.

Details

The Association (now Health Shared Services Ontario) and the CCACs developed direct-nursing program staff caseload benchmarks in 2015. At the time of our follow-up, each CCAC compiled caseload data by direct-nursing program every quarter and Health Shared Services Ontario compared this information provincially. To illustrate, in the month of October 2016, on average, each CCAC's rapid response nurse had 42 clients, each mental health and addictions nurse had 26 clients, and each palliative care nurse practitioner had 48 clients. In comparison, the staff-caseload benchmark for each of these three programs was 20 to 30 clients, 20 to 25 clients, and 18 to 23 clients, respectively. Management at the three CCACs we visited also monitored caseload sizes on a regular basis.

Recommendation 12

To fully measure the effectiveness of the direct-nursing programs (Rapid Response Nursing Program, Mental Health and Addictions Nursing Program, and Palliative Care Nurse Practitioner Program) at individual Community Care Access Centres (CCACs) and on a provincial level, the Ministry of Health and Long-Term Care should:

- *make available to CCACs data on hospital readmission and emergency room visits so they can individually monitor their own programs' success;*

  Status: In the process of being implemented by December 2017.

Details

In May 2017, the Ministry provided hospital data to Health Shared Services Ontario. At the time of this follow-up, the two parties were working together to ensure data quality.

- *analyze province-wide the readmission trends for patients who have received rapid-response nursing services;*

  Status: In the process of being implemented by March 2018.

Details

At the time of this follow-up, the Ministry was analyzing readmission trends and noted that it will work with the LHINs to review all three direct-nursing programs.

- *establish targets for the performance indicators developed for all three programs.*

  Status: Fully implemented.

Details

In 2016, a provincial working group comprising the former CCACs and the Association (now Health Shared Services Ontario) refined and finalized direct-nursing programs' targets and indicators. To illustrate some examples, rapid response nurses are expected to provide medication reconciliation to 90% to 95% of their patients; each mental health and addictions nurse is expected to have 20 to 25 active patients; and palliative care nurse practitioners are expected to see 90% to 95% of their patients within five days of the patients being available for a service visit.

Recommendation 13

To confirm that service providers deliver high-quality services to patients at home, Community Care Access Centres should:

- *establish performance targets for occurrences of missed care;*

  Status: Fully implemented.

Details

In March 2016, the former CCACs updated the provincial CCAC client service contract performance framework to include targets for missed care. For every 10,000 clients, the CCAC expected the service provider to miss care for no more than five clients.

- *determine, through contacting patients, for example, whether over an agreed time period service providers failed to provide care in accordance with the patients' care plans.*
  Status: Fully implemented.

Details

During 2015/16 and 2016/17, the Association (now Health Shared Services Ontario) made several updates to the provincial client satisfaction survey to improve the accuracy and reliability of survey responses. One of the updates involved adding questions to the client and caregiver evaluation survey specifically asking patients and caregivers if service-provider organizations provided services on time, if they kept patients informed of when services would arrive, and if provided services were those agreed to as part of their care plan.

Existing Contracts between CCACs and Service Providers

Recommendation 14

To ensure home-care services are procured from external service providers in a cost-effective manner, the Ministry of Health and Long-Term Care should work with Local Health Integration Networks and the Ontario Association of Community Care Access Centres to put harmonized billing rates in place.
Status: In the process of being implemented by March 2018.

Details

In October 2015, the Ministry established a working group to advise on a proposed harmonized rate for general personal support services (which accounts for about 80% of all personal support service volumes). This working group included representation from CCACs, the Association (now Health Shared Services Ontario), LHINs, service-provider organizations, and home-care provider associations. The Ministry also undertook two rounds of consultations with service providers about the proposed harmonized rate to confirm numbers and approach. Based on these efforts, the Ministry determined a harmonized rate for general personal support services in April 2017, and issued a directive to require CCACs to amend service contracts with their service providers to reflect the harmonized rate. The Ministry is continuing to work with the LHINs and the LHINs with their health service providers to update other rates.

Long-Term Cost-Effectiveness of Existing Care Protocols

Recommendation 15

To ensure consistent processes are followed in the delivery of patient care across the province, the Ontario Association of Community Care Access Centres, in conjunction with the Community Care Access Centres, should:

- *confirm that best practices regarding the various clinical-care protocols are used in the province;*
  Status: In the process of being implemented by December 2018.

Details

The home- and community-care sector is in the process of developing consistent provincial approaches on various patient populations. For instance, in 2015, the sector implemented new assessment guidelines on the use of a screening tool for all children and youth receiving CCAC mental health and addictions nursing services. The sector is also providing support to Health Quality Ontario in developing quality care standards on hip fractures, venous and mixed venous/arterial leg ulcers, diabetic foot ulcers, and pressure injuries. (Quality standards are concise sets of statements

that will help patients know what to ask for in their care, help health-care professionals know what care they should be offering, and help health-care organizations measure, assess and improve performance.) The sector is awaiting Health Quality Ontario to release its quality standards on wound care before proceeding to implement standardized clinical-care protocols on this condition—the sector expects to do so by December 2018. As well, the sector has worked with the Rehabilitative Care Alliance (a province-wide collaborative established in April 2013 by all 14 LHINs) to develop rehabilitative care best-practice frameworks for patients with hip fracture and primary hip and knee replacement.

- *in collaboration with private-sector service providers, consider standardizing the home-care clinical-care protocols, including standardizing which medical supplies should be used, for the most prevalent health conditions.*

  Status: Fully implemented.

Details

At the time of this follow-up, all three CCACs we visited in the 2015 audit had developed local standards that define the types and the quantities of medical supplies for wound care, and one had further defined local standards for other home-care services such as catheter care and enteral feeding. The CCACs we visited told us they intended to monitor current best practice on an ongoing basis to ensure standards reflect best practice. They noted that standardizing medical supplies is influenced by local factors such as which supplies the local hospitals use. As a result, standardization would happen by region rather than provincially.

Recommendation 16

To ensure the long-term cost-effectiveness of care protocols can be assessed, the Ontario Association of Community Care Access Centres, in conjunction with the Community Care Access Centres, should develop standard data requirements and collect the necessary data for further analysis.

Status: In the process of being implemented by December 2018.

Details

At the time of the follow-up, Health Shared Services Ontario and the CCACs were awaiting Health Quality Ontario to finalize its work on wound care quality standards. Once complete, they expect to use those standards to develop data requirements and begin collecting data for further analysis and performance reporting.

Chapter 3

Follow-Up on Reports Issued by the Standing Committee on Public Accounts

Summary

The Standing Committee on Public Accounts (Committee) holds hearings throughout the year when the Legislature is in session on chapters in our Annual Reports or our special reports, and presents its observations and recommendations in reports that it tables in the Legislative Assembly. The ministries, agencies of the Crown and organizations in the broader public sector are responsible for implementing the recommendations made by the Committee; our role is to independently express a conclusion on the progress that the audited entity made in implementing the actions contained in the Committee's recommendations.

This year, we followed up on the status of the implementation of the Committee's recommendations from seven Committee reports tabled between June 2016 and March 2017. Our objective is to provide the Committee with information on the actions being taken by audited entities to provide the requested information and address the recommendations that the Committee made in its reports to the Legislature.

In conducting the follow-up work, our Office complies with the Canadian Standard on Quality Control 1 established by the Chartered Professional Accountants of Canada. Our staff who conducted the follow-up work comply with the independence and other ethical requirements of the Rules of Professional Conduct issued by Chartered Professional Accountants of Ontario.

We obtained a limited level of assurance in our follow-up work, which consists primarily of inquiries and discussions with the government, the relevant ministries or broader-public-sector entities; a review of their status reports; and a review of selected supporting documentation. In a few cases, the organization's internal auditors also assisted us with this work. The procedures performed in a limited assurance engagement vary in nature and timing from a reasonable assurance engagement, such as an audit, and do not extend as far. As this is not an audit, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively. The actions taken or planned may be more fully examined and reported on in future audits. Status reports will factor into our decisions on whether future audits should be conducted in these same areas.

As noted in **Figure 1**, progress has been made toward implementing 67% of the Committee's 97 recommended actions, including 23% that have been fully implemented. The Treasury Board Secretariat, Ministry of Energy and ServiceOntario have fully implemented over 40% of the Committee's recommendations.

There has been little or no progress on three (3%) of the recommended actions. For instance, we found that the Ministry of Education had not set goals and targets for school boards to increase physical activity in schools. We also found Community Care Access Centres had made little progress in centralizing wait lists for community-based support services. Five percent of the recommended actions will not be implemented.

Twenty-five percent of the Committee's recommended actions are no longer applicable. This is primarily due to changes made under the *Building Ontario Up Act, 2015* (Act), which removed our ability to conduct value-for-money audits at Hydro One or to follow up on the implementation status of recommendations from our audits conducted prior to the tabling of the Act on December 4, 2015.

More specific details are presented in the sections that follow **Figure 1**.

Figure 1: Overall Status of Implementation of Recommendations from the Standing Committee on Public Accounts

Prepared by the Office of the Auditor General of Ontario

Report Section	# of Recs	# of Actions Recommended	Status of Actions Recommended: Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
3.01 CCACs–Community Care Access Centres–Home Care Program Tabled December 1, 2016	7	18	4	13	1	0	0
3.02 Electricity Power System Planning Tabled March 21, 2017	10	11	5	5	0	1	0
3.03 Healthy Schools Strategy Tabled October 17, 2016	4	8	0	7	1	0	0
3.04 Hydro One–Management of Electricity Transmission and Distribution Assets Tabled December 8, 2016	10	24	0	0	0	0	24
3.05 Metrolinx–Regional Transportation Planning Tabled June 7, 2016	6	21	6	11	1	3	0
3.06 ServiceOntario Tabled June 7, 2016	5	7	3	3	0	1	0
3.07 Toward Better Accountability Tabled December 5, 2016	6	8	4	4	0	0	0
Total	**48**	**97**	**22**	**43**	**3**	**5**	**24**
%	**100**	**100**	**23**	**44**	**3**	**5**	**25**

Chapter 3
Section
3.01

CCACs—Community Care Access Centres—Home Care Program

Standing Committee on Public Accounts Follow-Up on Section 3.01, *2015 Annual Report*

In May 2016, the Committee held a public hearing on our 2015 audit of Community Care Access Centres (CCACs)—Home Care Program. The Committee tabled a report in the Legislature resulting from this hearing in December 2016. The report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee made seven recommendations and asked the Ministry of Health and Long-Term Care (Ministry) and the Local Health Integration Networks (LHINs) to report back by the end of March 2017. The Committee directed the recommendations to LHINs rather than CCACs because LHINs were expected to assume the home-care function of CCACs, and the CCACs were to be eliminated subject to the passage of the *Patients First Act* (Act). The Act was passed in the Legislature about one week after the tabling of the Committee report. At the time of the follow-up, the transfer of home-care responsibility from CCACs to LHINs was in progress. The Ministry, Health Shared Services Ontario (formerly the Ontario Association of Community Care Access Centres) and the CCACs formally responded to the Committee on March 31, 2017. A number of issues raised by the Committee were similar to the audit observations in our 2015 audit, which we have also followed up on this year (see **Chapter 1**). The status of each of the Committee's recommended actions is shown in **Figure 1**.

We conducted assurance work between April 1, 2017 and June 30, 2017, and obtained written representation from the Ministry of Health and Long-Term Care, Health Shared Services Ontario and the three Local Health Integration Networks (Central, North East, and Champlain) that, effective September 1, 2017, they have provided us with a complete update of the status of the recommendations made by the Committee. (At the time of finalizing this report, LHINs had taken over the responsibility of home care from the CCACs, which ceased to exist.)

Overall Conclusion

According to the information the Ministry, Health Shared Services Ontario and the CCACs (now part of the LHINs) provided to us, as of June 30, 2017, 22% of the Committee's recommendations had been fully implemented and about 70% of the recommendations were being implemented. However, there had been little or no progress on one recommendation. For example, the Ministry and the CCACs had fully implemented recommendations

Figure 1: Summary Status of Actions Recommended in December 2016 Committee Report

Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended			
	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	4		4		
Recommendation 2	2		1	1	
Recommendation 3	1		1		
Recommendation 4	2		2		
Recommendation 5	1	1			
Recommendation 6	7	3	4		
Recommendation 7	1		1		
Total	**18**	**4**	**13**	**1**	**0**
%	**100**	**22**	**72**	**5**	**0**

relating to areas such as revising the client satisfaction survey methodology to be more effective and conducting routine site visits to monitor service-provider performance. As well, the Ministry and the CCACs were in the process of implementing recommendations relating to areas such as addressing funding inequities between CCACs, developing standard performance indicators and targets for home-care services and developing standard guidelines for prioritizing clients for home-care services. However, the CCACs had made little progress in centralizing wait-lists for community-based support services. The Ministry has confirmed that the LHINs, now responsible for home care, will pursue these recommendations.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status details that are based on responses from the Ministry, Health Shared Services Ontario and the CCACs, and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 The Ministry of Health and Long-Term Care • address funding inequities between Community Care Access Centres; **Status: In the process of being implemented by June 2018.** • establish a minimum level of care, based on assessed need, that clients can expect to receive; **Status: In the process of being implemented by December 2018.** • develop standard guidelines for prioritizing clients for services, and monitor compliance with those guidelines; **Status: In the process of being implemented by December 2018.** • ensure that clients with the highest level of assessed need are provided hours of care closer to the regulated maximum. **Status: In the process of being implemented by December 2018.**	The Ministry had started using population-health data in allocating base funding increases of $100 million in 2016/17 and $80 million in 2017/18, and another $20 million in 2017/18 for services for high-needs clients. In making these funding increases, the Ministry considered the number of clients with complex needs and the length of time they received services at each CCAC. The Ministry indicated that it will continue to address historical inequities in home-care funding by June 2018. In August 2016, the Ministry established a Levels of Care Expert Panel (Expert Panel) to provide advice and recommendations on the development and implementation of a levels-of-care framework in Ontario. The Expert Panel is co-chaired by a physician and a vice president of Health Quality Ontario (an agency created in 2005 to provide advice to the Minister of Health and Long-Term Care on the quality of health care), and a senior director at the former Toronto Central CCAC. The framework is intended to introduce common home- and community-care assessment and care planning practices, and is expected to have significant implications for care co-ordination. In June 2017, the Expert Panel submitted a final report, *Thriving at Home: A Levels of Care Framework to Improve the Quality and Consistency of Home and Community Care for Ontarians*, to the Ministry. The Ministry expects to work with sector partners through the summer and fall of 2017 to plan for implementing the recommendations contained within this report. The LHINs will review the framework and work with the Ministry toward implementing recommendations relating to level of services, which may include establishing a minimum level of care, developing standard guidelines for prioritizing clients for services, and providing hours of care closer to the regulated maximum, by December 2018.

Committee Recommendation	Status Details
Recommendation 2 The Local Health Integration Networks	
• develop centralized wait-list information for all community-based support services in order to provide current information on the availability of such services to all health-service providers and clients; **Status: Little or no progress.**	At the time of this follow-up, the LHINs had not expanded the centralized wait-list information to include all community-based support services. The former CCACs (now LHINs) had regulatory authority to manage wait-lists for some community support service agencies (for example, respite/day programs, assisted living, and supportive housing). At the time of the follow-up, LHINs did not manage wait-list information for other community-based support services, such as homemaking, caregiver support and transportation services. LHINs indicated that centralizing wait-lists for all services requires broader local planning discussions between the home- and community-care function within the LHINs and community support service agencies. At the time of our follow-up, the LHINs indicated that the passage of the *Patients First Act* and the requirement to integrate services within sub-regions present an opportunity to further explore how centralized wait-lists could be implemented.
• ensure that all home-care health-service providers and community support service agencies share assessment information on a common system. **Status: In the process of being implemented by March 2019.**	We noted in our 2015 audit that the Ministry introduced an online system called Integrated Assessment Record that enables agencies to share client assessment information with each other. At that time, the Ministry required only CCACs and long-term-care homes to upload assessment information to the system, but did not extend that requirement to community support service agencies, which uploaded assessment information to the system on a voluntary basis. These requirements still had not changed at the time of the follow-up. The Ministry expected to support expanding the use of this system (which could include mandating community support service agencies to upload client assessments to the system) over the 2017/18 and 2018/19 fiscal years, following a review of the levels-of-care framework.
Recommendation 3 The Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, ensure that low-needs clients who require personal support services receive these services from community support service agencies, where appropriate, rather than through the Community Care Access Centres or, as the pending *Patients First Act, 2016* would enact, through the community care function within the Local Health Integration Networks. **Status: In the process of being implemented by December 2018.**	As of February 2016, four of the province's 14 LHINs had provided funds to designated community support service agencies to deliver personal support services to low-needs clients, thereby improving access and allowing CCACs to focus on clients with more complex care needs. These LHINs had identified and shared lessons learned and approaches with the remaining LHINs. At the time of this follow-up, the remaining 10 LHINs had also started to transfer their low-needs clients to community support service agencies, and were implementing standards, guidelines and performance measures to ensure co-ordinated access and consistent care for clients. The remaining LHINs expect to complete the transition by December 2018.

Committee Recommendation	Status Details
Recommendation 4 The Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, ensure	
• that home-care clients are assessed and reassessed within the required time frames; **Status: In the process of being implemented by March 2019.** • that care co-ordinators maintain their proficiency in, and are regularly tested on, the use of assessment tools. **Status: In the process of being implemented by December 2018.**	In September 2014, the home- and community-care sector began a review of assessment and reassessment performance metrics and targets that were developed and implemented as part of the Client Care Model. All CCACs use this model (a population-based approach to segmenting client services) to help them identify different patient populations based on their assessed care needs to support care planning. The sector then put this work on hold pending the finalization of the province's levels-of-care framework, which is expected to have significant implications for care co-ordination, including assessment and reassessment time frames. The Levels of Care Expert Panel submitted the framework to the Ministry in June 2017, and the Ministry expects to begin implementing the framework in early 2018. Following the implementation of the framework, the LHINs expect that care co-ordinators will assess and reassess clients within the required time frames by March 2019. In the meantime, the individual CCACs that we visited in our 2015 audit had implemented initiatives to support and enhance the timeliness of assessments and reassessments. For example, one CCAC standardized scheduling practices for its community care co-ordinators by scheduling in advance a set amount of assessments and reassessments per week. Another CCAC had implemented standard procedures for conducting telephone reassessments for certain patient groups. At the time of our 2015 audit, all CCACs had access to a provincial online testing system to test care co-ordinators' assessment competency on a regular basis. At the time of our follow-up, the CCACs that we visited in our 2015 audit indicated that the LHINs will deliver further assessment competency training as the home- and community-care sector transitions to an assessment tool called inter-Resident Assessment Instrument-Home Care in 2018. In the meantime, the CCACs had developed and implemented their own policies regarding the minimum number of assessments and competency testing for the care co-ordinators. For example, one CCAC provided its staff with targets for the minimum number of assessments they must complete per month and tests its staff bi-annually on their competency with assessment tools. Another CCAC conducted the assessment tool competency testing annually. The levels-of-care framework was submitted to the Ministry in June 2017. The LHINs planned to review the framework and implement any recommendations related to assessments, which may include the requirements for the minimum number of assessments care co-ordinators must complete per month and the frequency of competency testing, by December 2018.
Recommendation 5 The Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks, ensure that all home-care clients are contacted for follow-up after discharge. **Status: Fully implemented.**	At the time of this follow-up, CCACs had implemented various initiatives to follow up with clients discharged from home care. For example, one CCAC had implemented interactive voice response technology to follow up with discharged clients by telephone. The client can respond to questions, for example, about their current condition at home and whether they would like further follow-up from the CCAC. Another CCAC contracted an independent company to conduct direct client calls.

Committee Recommendation	Status Details
Recommendation 6 The Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks,	
• demonstrate that funding meant for Personal Support Worker wage increases was spent as intended; **Status: In the process of being implemented by June 2018.**	At the time of the 2015 audit, we noted that the Ministry only required contracted service providers to annually self-declare that they had complied with the personal support worker wage increase, but did not have any audit process to ensure that the funds it provided were spent to recruit and retain personal support workers according to the intention of the initiative. At the time of this follow-up, this was still the case. The Ministry indicated that service providers attest to their compliance with the Personal Support Worker Wage Enhancement Directive and Addenda through a certificate of compliance; this attestation required the signature of the highest ranking officer in the organization and confirmation by the organization's board chair. The CCACs (now LHINs) tracked the receipt of these attestations over the course of the three-year initiative and brought to the Ministry's attention issues of non-compliance, which were subsequently resolved. The Ministry indicated that it will collaborate with the 14 LHINs to conduct a provincial audit by June 2018 to ensure funds provided were spent to recruit and retain personal support workers.
• develop performance indicators and targets for home-care services; **Status: In the process of being implemented by December 2018.**	Beginning in spring 2016, the home-care sector participated in the provincial Home and Community Care Indicators Review led by Health Quality Ontario, which assessed the home care indicators that all CCACs currently report to the public. The review was completed in March 2017. At the time of our follow-up, the Ministry was examining the outcome of the indicators review and considering improvements to the current methodology, which it expected to complete by September 2017. It then plans to establish, by December 2018, service targets for these new indicators to track progress in improving consistency of care. The Ministry also plans to work with Health Quality Ontario to identify new patient experience indicators that are most meaningful to patients, caregivers, and the public.
• collect relevant data that measures client outcomes; **Status: In the process of being implemented by December 2018.**	At the time of this follow-up, the home-care sector was working with Health Quality Ontario on the development of quality standards for the care and rehabilitation of hip fractures. The development of the quality standard on hip fracture and associated recommendations for adoption is in the final stages of approval with Health Quality Ontario and will be released in fall 2017. It also worked with the Rehabilitative Care Alliance on the development of rehabilitative care best-practice frameworks for patients with hip fractures and primary hip and knee replacement. The home-care sector was also developing indicators to measure CCAC performance in this area. The home-care sector was establishing a provincial rehabilitation community of practice—a group of professionals who share their intelligence and learning concerning rehabilitation services—to support the sector in implementing the standards once finalized. The LHINs will continue to develop more outcome-based indicators on an ongoing basis, but expect most of this work to be completed by December 2018.

Committee Recommendation	Status Details
• collect data on missed, rescheduled, and late visits from each contracted service provider; **Status: In the process of being implemented by December 2018.**	In January 2015, CCACs revised the definition of "missed care" and began collecting provincial data to help set new provincial targets for "missed care". In March 2016, CCACs updated the agreement with service providers to include the revised definition and the targets. The CCACs planned to report on this indicator under revised methodology in the third quarter of 2017/18. With respect to rescheduled and late visits, CCACs measure these incidences by asking related questions in a client satisfaction survey.
• conduct routine site visits to monitor the quality of care provided by service providers; **Status: Fully implemented.**	At the time of our follow-up, the CCACs we visited indicated that staff conduct audits and/or site visits to monitor the quality of care provided by service providers in clients' homes. For example, one CCAC began visiting service providers in 2015 with a focus on patient safety, and intended to focus on contractual obligations related to performance and quality improvement in 2017/18. Another CCAC in 2015/16 and 2016/17 completed both desk audits and on-site audits of its service providers to investigate specific quality-improvement opportunities.
• review and revise the client satisfaction survey methodology to ensure that client satisfaction survey results can be used to effectively monitor the performance of service providers; **Status: Fully implemented.**	The CCACs made the following changes to the client satisfaction survey methodology to increase the accuracy and reliability of survey responses: • updated survey inclusion/exclusion criteria to optimize responses and the sample size, which improved data reliability (for example, the survey now excludes any patient who has completed a survey in the last 12 months and any patient who has refused to participate in a survey in the last nine months); • updated the survey sampling methodology and calling protocol to increase the likelihood of receiving responses to the survey (for example, the survey now pulls samples that contain only primary contact information, which helps ensure that the interviewer contacts the most appropriate caregiver if the patient is unable to be interviewed; as well, the interviewer can now contact up to three caregivers, rather than one, to increase the likelihood of getting a response to a survey); and • added modules in the client satisfaction survey for clinic patients and patients transitioning from hospitals to home care to increase the accuracy of information for specific services/clients.
• apply appropriate corrective actions to service providers that perform below expectations. **Status: Fully implemented.**	At the time of our 2015 audit, the CCACs we visited indicated that they were monitoring the performance of their service providers against a set of performance standards that are part of all service provider contracts. Where a service provider did not achieve a standard, a CCAC could issue a quality improvement notice, which required the service provider to develop an action plan to improve performance. If performance issues were not resolved, CCACs could decrease the amount of service volume allocated to a poorly performing provider or terminate the contract. In the fiscal year 2016/17, some CCACs had issued quality-improvement notices to service providers, but these CCACs did not decrease service volumes or terminate any contracts.

Committee Recommendation	Status Details
Recommendation 7 The Ministry of Health and Long-Term Care ensure that caregivers receive a sufficient level of appropriate support. **Status: In the process of being implemented by March 2018.**	In March 2016, the Ministry conducted a gap analysis and jurisdictional scan of caregiver training and education programs. The report identified the following gaps: Ontario had many disease-specific, but insufficient general, caregiver training and education programs; skills-based caregiver training programs were lacking; Ontario had limited programs offered in languages other than English and for different cultures and groups; Ontario had limited programs targeted to those caring for frail seniors; and Ontario had no lead organization that co-ordinates caregiver supports. To address these gaps, the Ministry expects to fund $4 million over two years beginning fall 2017 to support the development and delivery of caregiver training and education programs. As well, the Ministry engaged a consultant in 2016 to assess the need for a lead organization to co-ordinate supports and resources for caregivers across the province. Based on the report by the consultant, the government announced in April 2017 its intention to launch a caregiver organization. The Ministry also intends to develop a caregiver toolkit, and make it available to caregivers by March 2018. The Ministry provided funding of $40 million in total in July 2016 and April 2017 to enhance in-home caregiver respite. The CCACs tracked the use of these funds, including information such as service hours, individuals served, and amount spent. The CCACs reported this information back to the Ministry to inform the future direction of caregiver support programs.

Electricity Power System Planning

Standing Committee on Public Accounts Follow-Up on Section 3.05, *2015 Annual Report*

The Committee held a public hearing in November 2016 on our 2015 audit of Electricity Power System Planning. It tabled a report in the Legislature resulting from this hearing in March 2017. The report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee made 10 recommendations and asked the Ministry of Energy (Ministry) and the Independent Electricity System Operator (IESO) to report back by the end of July 2017. The Ministry and the IESO formally responded to the Committee on July 27, 2017. A number of issues raised by the Committee were similar to the observations we made in our 2015 audit. The status of the Committee's recommendations is shown in **Figure 1**.

We conducted assurance work between April 1, 2017 and August 4, 2017, and obtained written representation from the Ministry and the IESO that, effective September 1, 2017, they have provided us with a complete update of the status of the recommendations made by the Committee.

Figure 1: Summary Status of Actions Recommended in March 2017 Committee Report
Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended			
	# of Actions Recommended	Fully Implemented[1]	In Process of Being Implemented[2]	Little or No Progress	Will Not Be Implemented
Recommendation 1	1		1		
Recommendation 2	1				1
Recommendation 3	1		1		
Recommendation 4	1		1		
Recommendation 5	2		2		
Recommendation 6	1	1			
Recommendation 7	1	1			
Recommendation 8	1	1			
Recommendation 9	1	1			
Recommendation 10	1	1			
Total	**11**	**5**	**5**	**0**	**1**
%	**100**	**46**	**45**	**0**	**9**

1. Some recommendations required the Ministry or the IESO to provide information to the Committee. If the information was provided, we categorized it counted as "fully implemented."
2. Recommendations 1, 3, 4 and 5(b) will be implemented with the release of the Long-Term Energy Plan, which at the time of our follow-ups was expected to occur in fall 2017.

Overall Conclusion

According to the information the Ministry and the IESO provided to us, as of August 4, 2017, 46% of the Committee's recommendations have been fully implemented, a further 45% of the recommendations were in the process of being implemented and the remaining 9% of recommendations will not be implemented.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status details that are based on responses from the Ministry and the IESO, and our review of the information they provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken
Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 The Ministry of Energy provide the Committee with details on how it will include in its future Long-Term Energy Plans justification for all power decisions made, detailed technical plans and cost benefit analyses of alternatives in a transparent manner. **Status: In the process of being implemented in fall 2017.**	Subsequent to our audit, the *Energy Statue Law Amendment Act, 2016* was proclaimed into force on July 1, 2016. Under the new legislation, the IESO is required to develop a technical report, which is the first step and the basis for the Ministry to develop the Long-Term Energy Plan (LTEP). On September 1, 2016, the IESO submitted its technical report, Ontario Planning Outlook (Technical Report), to the Ministry. The Technical Report presented different future outlooks and scenarios for the energy sector over 20 years, from 2016 to 2035, taking into consideration different levels of energy demand and different technologies in energy supply. For outlooks and scenarios where new energy supply may be required, the Technical Report included different alternatives and compared them from cost and emissions perspectives. The IESO also developed seven modules with data and analyses used in the Technical Report. One of the modules illustrated the cost of the power system across different demand outlooks and different supply options. In addition to the Technical Report, the Ministry also engaged a third party to prepare another technical report, the Fuel Technical Report (Fuel Report), which was released on September 30, 2016. It provides a review of fuel consumption and outlooks from 2016 to 2035. To ensure transparency, both the Technical Report and Fuel Report were posted on the Ministry's website prior to a public consultation and engagement process, which took place from October 2016 to January 2017 as part of the development of the LTEP. The Ministry held stakeholder sessions and public open houses in 17 communities across Ontario. It also held 17 sessions with Indigenous communities and organizations. Overall, the Ministry received over 1,500 submissions through its Environmental Registry, emails and other channels. The Ministry posted all information and data used in the development of the LTEP on its website. At the time of our follow-up, the Ministry was in the process of developing the LTEP based on information from the Technical Report and Fuel Report as well as feedback from the public consultations. It expected to release the LTEP in fall 2017.

Committee Recommendation	Status Details
Recommendation 2 The Ministry of Energy provide the Committee with details on how future Long-Term Energy Plans will be independently reviewed to ensure that they are prudent and cost effective in order to protect the interest of electricity consumers. **Status: Will not be implemented.**	The new *Energy Statute Law Amendment Act, 2016* has changed the electricity planning process in Ontario. As mentioned under **Recommendation 1**, the Ministry is responsible for developing the LTEP after thorough consideration of the IESO's Technical Report, as well as feedback from the public consultation and engagement process. To ensure that the government's goals and expectations outlined in the LTEP are implemented, the Minister of Energy intends to issue directives to the Ontario Energy Board (OEB) and the IESO once the LTEP is finalized and released. The directives set out the government's requirements for implementation and direct each agency to develop implementation plans. Upon receiving an implementation directive, the two agencies are to develop their respective implementation plans outlining frameworks on how to implement the government's objectives and requirements laid out in the LTEP. While the public consultation process has been put in place as part of the development of the LTEP, the IESO's Technical Report and the LTEP are not required to be submitted to the OEB for independent review and approval to ensure that the LTEP is prudent and cost effective. The OEB is only responsible for preparing an implementation plan when the Ministry requests it, through the issuing of a ministerial directive to the OEB, to ensure that the government's goals and expectations outlined in the LTEP are implemented. In other words, the new long-term energy planning process does not enable the OEB to review and approve the plans as an independent regulator.
Recommendation 3 The Ministry of Energy provide the Committee with details on how it will be transparent about the cost impact of power decisions to the ratepayers, in addition to informing the public about the rationale for its directives. **Status: In the process of being implemented in fall 2017.**	Under the new *Energy Statute Law Amendment Act, 2016*, all directives and directions sent to the IESO have been and are to continue being publicly posted on the IESO's website to ensure transparency. The Ministry has issued seven directives to the IESO subsequent to our 2015 audit. Our review of these directives found that they included background information and details that explained the context and rationale for policy objectives, informing the public about the rationale for any decisions made. As mentioned under **Recommendation 1**, the Ministry was in the process of developing the LTEP based on information from the IESO's Technical Report and feedback from public consultation. The IESO also developed seven modules with data and analyses used in its Technical Report. One of the modules illustrated the cost of the power system across different demand outlooks and different supply options. To ensure transparency about the cost impact of the LTEP to ratepayers, the Ministry is required by the *Electricity Act, 1998* to post all information and data used in the development of the LTEP on its website. The LTEP is expected to be released in fall 2017. In addition to the Ministry's development of the LTEP, the IESO has initiated the Market Renewal Project (Project), which has the objective of delivering "a more efficient, stable marketplace with competitive and transparent mechanisms that meet system and participant needs at the lowest cost." Still in its early phase of development, this multi-year Project's design and implementation are to run from 2017 to 2021. It is intended that the Project will also help improve transparency about the cost impact of power decisions on ratepayers in the future. During our follow-up, the IESO was in the process of engaging with stakeholders to build consensus for and public awareness of the design and implementation of the Project.

Committee Recommendation	Status Details
Recommendation 4 The Ministry of Energy provide the Committee with details of how it will make sure future power generation decisions are supported by IESO's technical expert advisors and how it will inform the public about the rationale for any power decisions made that deviate from IESO's recommendations. **Status: In the process of being implemented in fall 2017.**	As mentioned under **Recommendation 1**, under the new *Energy Statue Law Amendment Act, 2016*, the IESO is required to develop a technical report, which is the first step and basis for the Ministry to develop the LTEP. The Ministry indicated that the IESO's technical report, as described in the *Electricity Act*, is intended to outline the adequacy and reliability of electricity resources. In other words, the IESO's technical report is intended to inform the LTEP's public consultation and engagement process and subsequent decisions made by the Ministry, but it is not intended to provide recommendations. Since the IESO's technical report, *Ontario Planning Outlook*, does not contain any recommendations, the Ministry will not be providing the public with the rationale for decisions that deviate from IESO recommendations. In addition, as mentioned under **Recommendation 2**, the Minister of Energy will issue directives to the OEB and the IESO once the LTEP is finalized and released. The directives set out the government's requirements for implementation and direct each agency to develop implementation plans to ensure that the government's goals and expectations outlined in the LTEP are implemented. The Ministry indicated that the LTEP and the IESO and OEB implementation directives and plans are intended to work together to articulate a policy vision and give the IESO and OEB operational flexibility to determine the best course of action. Furthermore, the Ministry indicated that it will continue to support the IESO's Market Renewal Project, as previously noted under **Recommendation 3**, which will help ensure that future power generation decisions are supported by the IESO's expert advisors. The Project's objective is to ensure that future decisions on the power system will be determined using market-based mechanisms to reduce system costs, improve transparency and provide flexibility as Ontario's power system needs evolve.

Committee Recommendation	Status Details
Recommendation 5 The Ministry of Energy, or the IESO, as applicable	
a) provide the Committee with details on how it evaluates proposals for investing in generation facilities compared to investing in conservation initiatives (e.g., business case, cost benefit analysis); and **Status: In the process of being implemented by 2021.**	a) During our follow-up, we found that the Ministry has worked with the IESO to evaluate various conservation programs as part of a new initiative, the Conservation First Framework (Framework), which was introduced subsequent to our 2015 audit. The Framework covers the implementation of conservation programs over six years, from 2015 to 2020, emphasizing more teamwork among sector partners, particularly the local distribution companies. Under the Framework, conservation programs are required to pass cost-effectiveness tests prior to being approved and are subject to the Evaluation, Measurement and Verification process to ensure that they maintain a positive cost-benefit result (with specific exceptions, such as programs for low-income consumers), achieve their intended goals, provide value for consumers and identify opportunities for improvement. The IESO has published evaluation reports on various conservation programs, such as the Aboriginal Conservation Program, Home Assistance Program and New Construction Program. In addition, as part of the IESO's Market Renewal Project (as mentioned under **Recommendation 3**), future electricity generation will be procured via competitive market mechanisms based on supply and demand outlooks, which include conservation initiatives. In other words, the cost-effectiveness of conservation initiatives will be taken into consideration as part of the process for deciding on investments in generation facilities and procuring electricity supply.
b) provide the Committee with an assessment of the anticipated impacts conservation initiatives will have on electricity costs during surplus generation periods over the long-term. **Status: In the process of being implemented in fall 2017.**	b) The Ministry indicated that, as part of the development of the LTEP, it will work with the IESO to model and consider the impacts of conservation initiatives on electricity costs during surplus generation periods. At the time of our follow-up, the Ministry was in the process of developing the LTEP, which it expected to release in fall 2017.

Committee Recommendation	Status Details
Recommendation 6 The IESO provide the Committee with a progress update on the regional capacity and reliability issues identified in the Auditor General's report. **Status: Fully implemented.**	Both the Ministry and the IESO responded to this recommendation and provided the following information. The IESO provided a progress update on the regional capacity and reliability issues identified in our 2015 audit. Specifically: • Kitchener-Waterloo-Cambridge-Guelph (KWCG) region: The 2015 KWCG Integrated Regional Resource Plan identified a number of actions, including the implementation of the Guelph Area Transmission Refurbishment project (which came into service in 2016) and switching facilities at Galt Junction (which are to be in service by the fall of 2017). These projects are expected to provide sufficient capacity to support the increase of demand over the long term and will help minimize the impact of supply interruption in the area. The next regional planning cycle for the KWCG area is to be initiated in 2018. • Windsor-Essex region: In 2014, Hydro One submitted an application to the OEB for leave to construct the Supply to Essex County Transmission Reinforcement (SECTR) project, consisting of a new 230 kV supply station located near Leamington and a 13-km connection line. The SECTR project addresses two regional planning needs: the need for additional supply capacity in the Kingsville-Leamington area, and the need for additional restoration capability in the broader Windsor-Essex area. In July 2015, the OEB approved the SECTR project, and Hydro One initiated construction in 2016. The project is scheduled to be in service by summer 2018. • Northwest GTA region: To deal with the growing electrical demand to service new customers in Northwest GTA over the next 20 years, the near- and medium-term solutions include incorporating new transformer stations at existing sites and upgrading existing transmission circuits. The IESO forecasted that the first transformer station will be in service in 2019. Actual electrical demand in the area continues to be monitored to determine when additional measures will be required. In the long term, a new transmission system will be required to meet demand from new developments in the northern Brampton and southern Caledon areas. The IESO continues to work with industry partners and the appropriate provincial and municipal government groups to secure rights adjacent to other planned infrastructure corridors. In addition to the progress update provided by the IESO, the Ministry also indicated that the LTEP will address capacity and reliability issues relating to transmission and distribution systems. Specifically: • As mentioned under **Recommendation 1**, the IESO submitted its Technical Report to the Ministry for use in developing the LTEP. The IESO also developed seven modules with data and analyses used in the Technical Report. One of the modules—Market and System Operations and Transmission and Distribution Outlook—examined key planning and operational considerations related to transmission and distribution systems to address regional capacity and reliability. • The development of the LTEP has included a regional planning process to address current capacity and reliability issues. The IESO has been working with local distribution companies and transmitters to ensure regional issues and requirements are integrated into electricity planning. During our follow-up, the first cycle of regional planning by the IESO was under way, covering 21 electricity regions across the province. Regional planning will look at each region's unique needs and consider conservation, generation, transmission and distribution to meet these needs. Electricity needs in all regions are to be reviewed every five years or sooner, if needed. The IESO has posted on its website the status of regional planning activities, including specific regional updates and plans.

Committee Recommendation	Status Details
Recommendation 7 The IESO provide the Committee with the results of the March 2016 stakeholder engagement on market renewal and next steps. **Status: Fully implemented.**	The IESO began discussions with stakeholders in April 2016 about developing the Market Renewal Project (Project) (as noted under **Recommendation 3**). The focus of these initial discussions was to address known issues with the current design of the electricity market; recognize the significant changes that have taken place in the supply mix and in new technologies; and ensure that the market will support future change. A key element in the first phase of engagement on the Project was to develop a benefits case that looked at the proposed market changes, considered the experience of other jurisdictions in making similar changes and their applicability to Ontario, and then estimated the range of potential net benefits that might accrue from these changes. The IESO retained a third party to prepare the benefits case analysis; this was developed over an eight-month period and was supported by internal and external stakeholder consultations. The analysis determined that the proposed changes would result in net benefits and in a more efficient and stable marketplace with competitive and transparent mechanisms. The final benefits case was published on April 20, 2017. Early in the consultations, stakeholders identified the need for a working group to support in-depth discussion on technical, strategic and policy issues related to the Project. In response, the IESO solicited nominations for participation in a Market Renewal Working Group (Working Group). Over the course of the initial engagement, the Working Group played a key role in providing input into the development of the benefits case and in identifying early strategic issues related to the Project. Going forward, the Working Group is to continue to serve as a representative stakeholder forum to guide, advise and inform the IESO on important issues that will impact the overall success of the Project. At the time of our follow-up, the IESO and stakeholders were moving into the design phase of the Project. In early May 2017, the IESO launched stakeholder engagements for two initiatives (the Single Schedule Market and Incremental Capacity Auction) and intended to launch engagements for additional initiatives later in 2017. The IESO expects to have developed high-level designs for six different initiatives by the end of the second quarter of 2018.

Committee Recommendation	Status Details
Recommendation 8 The Ministry of Energy provide the Committee with details on how future Long-Term Energy Plans will be independently reviewed to ensure that they are prudent and cost effective in order to protect the interest of electricity consumers. **Status: Fully implemented.**	The Ministry provided the following cost information related to the Darlington refurbishment project: • The Ontario Power Generation's (OPG) 2017-2021 rate application submitted to the OEB indicated that Darlington refurbishment is expected to be complete by 2026, and the Pickering station is expected to operate up to 2022/24 (two units will be shut down in 2022 and the remaining four units will be shut down in 2024) and then be decommissioned. • The OPG estimated that the average cost of Darlington over 30 years, during post-refurbishment operation, would range from 7.2 cents to 8.1 cents per kWh (in 2015 dollars). • In December 2016, the Ministry and the IESO provided the Committee with the OPG's nuclear rate assumptions from 2016 to 2036, which had been used by the IESO in its Technical Report and by the OPG in its 2017-2021 rate application submitted to the OEB. • On March 2, 2017, the government filed an amendment to O. Reg. 53/05 under the Ontario Energy Board Act, 1998 to ensure that the OEB further reduce the volatility in electricity rates for Ontario ratepayers during Darlington's refurbishment. As a result, on March 8, 2017, the OPG filed a revised rate-smoothing proposal with the OEB, in line with the regulation amendment. • The Ministry provided the OPG's estimates for its annual nuclear rates as well as average nuclear rates for each of the five-year periods from 2017 to 2036, underlying the OPG's 2017-2021 rate application filed with the OEB on March 8, 2017. (See **Note 1**.)

Committee Recommendation	Status Details
Recommendation 9 The Ministry of Energy provide the Committee with the impact the delayed refurbishment of nuclear units at Bruce and continued operation of Pickering Generation Station have on surplus power and its associated cost to the ratepayers. **Status: Fully implemented.**	Both the Ministry and the IESO responded to this recommendation and provided the following information: The Ministry indicated that the IESO's Technical Report incorporated in its supply outlook the ongoing operation of the Pickering nuclear plant up to 2022/24 (two units will be shut down in 2022 and the remaining four units will be shut down in 2024) and the latest Bruce refurbishment schedule (showing the first Bruce unit to be refurbished in 2020). The Technical Report also included a range of demand outlooks (low, flat and high), and indicated that about 3,100 MW of capacity would be lost after shutting down and decommissioning Pickering in 2022/24. The Ministry did not have estimates for costs associated with surplus power resulting from ongoing Pickering operations and delayed Bruce refurbishment, so it directed us to the IESO for this information. The IESO informed us that its Technical Report included a module, Market and System Operations & Transmission and Distribution Outlook, which presented the results of the IESO's most recent assessment of surplus power. This included consideration of the impact of the deferred refurbishment of Bruce nuclear units and continued operation of Pickering to 2022/24. Key results of the IESO's assessments are as follows: • To maintain a reliable and stable system, supply and demand must be kept in balance, requiring surplus energy mitigation tactics. Currently, most of Ontario's surplus is managed economically through the market via exports to neighbouring jurisdictions. The remaining surplus power is managed by diverting water from hydro turbines ("hydro spill"), curtailing wind and solar generation, and maneuvering or shutting down units at the Bruce nuclear generating station. • Surplus power levels would decline over time as units from the Pickering nuclear generating station retire and as units at Darlington and Bruce are brought out of service for refurbishment. • The IESO estimated that from 2016 to 2035, surplus power (under the flat demand outlook) would decrease from 13.3 TWh in 2016 to 3.7 TWh in 2035. The IESO's assessment of the Pickering station's extended life and the associated impacts on surplus power, including costs to consumers, can be found in the OPG's rate application (EB-2016-0152) submitted to the OEB. In March 2015, upon the Ministry's request, the IESO provided an assessment of the impacts of extending the Pickering station's life under various scenarios between 2018 and 2024. The IESO concluded that the scenario of Pickering operating to 2022/24 appeared most promising among the extension options assessed. In October 2015, the IESO updated its evaluation of the Pickering extension, with particular focus on the option of extending to 2022/24. With respect to the impact on surplus power of the Pickering extension, the IESO's assessment noted that extending Pickering operations beyond 2020 would increase potential surplus energy. It also estimated that the cost of surplus power would decrease between 2017 and 2020, and then increase from 2021 to 2024. The IESO's assessment results can be found in the OPG's rate application (EB-2016-0152 Exhibit F2-2-3 Attachment 1 and EB-2016-0152, Exhibit L, Tab 6.5 Schedule 7 ED-032) on OEB's website **www.oeb.ca**. While the IESO indicated that it has not formally assessed the impact of deferred refurbishment of nuclear units at Bruce on surplus power and its associated costs to ratepayers, it expected that the Bruce deferral would have the effect of reducing surplus power in the longer term.

Committee Recommendation	Status Details
Recommendation 10 The Ministry of Energy provide the Committee with quarterly progress updates on the current Darlington refurbishment. **Status: Fully implemented.**	The Ministry indicated that as of the start of the refurbishment of the first unit at Darlington (Unit 2) in October 2016, the OPG has been providing monthly status updates on the progress of the refurbishment. The monthly reports track the progress of the project against key performance indicators, including safety, quality, schedule and cost, and highlight key project milestones achieved as well as challenges faced. The latest monthly progress reports are publicly available on OPG's website **www.opg.com/Pages/home.aspx**.

Note 1: Rate (Cents/kWh)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual Nuclear	7.6	7.9	8.5	8.8	9.2	10.4	12.6	12.5	16.5	16.1
5-Year Average			8.4					13.6		
	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Annual Nuclear	16.1	15.0	14.5	14.2	14.1	13.7	13.4	13.3	12.8	12.5
5-Year Average			14.8					13.1		

Chapter 3
Section
3.03

Ministry of Education

Healthy Schools Strategy

Standing Committee on Public Accounts Follow-Up on Section 4.03, *2015 Annual Report*

The Committee held a public hearing on May 4, 2016 on our 2015 follow-up to our 2013 audit of the Healthy Schools Strategy. The Committee tabled a report on this hearing in the Legislature in October 2016. The report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee made four recommendations and asked the Ministry of Education (Ministry) to report back by mid-February 2017. The Ministry formally responded to the Committee on February 14, 2017. A number of the issues raised by the Committee were similar to the audit observations in our 2013 audit and 2015 follow-up. The status of each of the Committee's recommended actions is shown in **Figure 1**.

We conducted assurance work between April 1, 2017 and July 31, 2017, and obtained written representation from the Ministry of Education that effective September 1, 2017 it has provided us with a complete update of the status of the recommendations made by the Committee in its report.

Figure 1: Summary Status of Actions Recommended in October 2016 Committee Report

Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended			
	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	1		1		
Recommendation 2	3		3		
Recommendation 3	2		2		
Recommendation 4	2		1	1	
Total	**8**	**0**	**7**	**1**	**0**
%	**100**	**0**	**88**	**12**	**0**

Overall Conclusion

At the time of our follow-up, the Ministry was reviewing and revising both the School Food and Beverage Policy and the Daily Physical Activity Policy, which were the main subjects of the original audit.

According to the information the Ministry provided to us, as of July 31, 2017, seven of the Committee's recommended actions (88%) were in the process of being implemented. However, there has

been little or no progress on the remaining action (12%). That is, the Ministry had not set goals and targets for school boards to increase physical activity in schools, and periodically monitor, measure and publicly report on the progress made. The Ministry informed us it expects to start taking these steps after the policies are revised.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status details that are based on responses from the Ministry, and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 The Ministry of Education and school boards should improve communication with parents to encourage healthier eating and increased physical activity, and assess the effectiveness of this communication. **Status: In the process of being implemented by December 2017.**	The Ministry has taken some action in this area, and has plans for additional actions, including: • At the time of our follow-up, the Ministry was surveying 25 school boards to determine the extent they communicate with parents about healthy schools policies–including the value of healthy eating and physical activity. The Ministry anticipated that school boards would complete the survey by the end of the 2016/17 school year. The Ministry was also planning to engage in follow-up discussions with the school boards with respect to their survey responses. By December 2017, the Ministry expects to have prepared a final report, which will include best practices with respect to parent communications and will share it with all 72 school boards. • In 2016/17 the Ministry provided funding, through the Parents Reaching Out (PRO) Grants program, to local projects that enhance parent engagement in their children's learning in support of student achievement and well-being. The Ministry funded 275 school council projects a total cost of $266,000 to provide workshops, events and sessions for parents to promote healthy living. In February 2017, the Ministry announced plans to continue the PRO Grant program in the 2017/18 school year. • In 2016, the Ministry created promotional videos that highlight successful PRO Grants projects and posted them on its website. One such video features a school council that successfully used PRO grant funds to do a series of Family Fitness Nights. • The Ministry posted two fact sheets for parents on it website–*Quick Facts for Parents: Learning about Active Transportation* (September 2015) and *Quick Facts for Parents: Learning about Healthy Eating* (December 2015). The Ministry informed us that it plans to release another factsheet for parents in September 2017 focused on physical activity. • In April 2017, the Ministry held six regional symposia for parents across Ontario and one French-language symposium that provided an opportunity to share information with parents on healthy schools initiatives, including healthy eating and physical activity. • Ontario youth aged 11–15 participated in an international survey in 2013/14 that captured health-related data. The Ministry plans to release Ontario's survey results in September 2017, to raise awareness about the importance of promoting healthy eating and increasing physical activity.

Committee Recommendation	Status Details
Recommendation 2 The Ministry of Education should work with school boards to:	
• ensure that school administrators and teachers receive sufficient training to implement the School Food and Beverage Policy and promote healthy eating; and **Status: In the process of being implemented by June 2018.**	At the time of our follow-up, the Ministry was in the process of reviewing its School Food and Beverage Policy. This work will be done in four phases: (1) conducting research, including a review of policies in other jurisdictions; (2) consulting with stakeholders and other ministries through various working groups; (3) revising policies and developing performance measures; and (4) developing supports to assist with the implementation of the policy, including consideration of administrators and educators' needs. At the time of our follow-up, the Ministry had completed phase one and was working on phase two. The Ministry expects to release a revised School Food and Beverage Policy in June 2018, after which time the Ministry informed us it expects to make plans to help ensure administrators and educators receive training and other supports for implementation of the revised policy.
• develop consistent and effective strategies for monitoring compliance with the School Food and Beverage Policy; and **Status: In the process of being implemented by December 2017.**	At the time of our follow-up, the Ministry was surveying 25 school boards to determine implementation of the existing School Food and Beverage Policy. As noted in response to Recommendation 1, the Ministry expects to prepare a summary of key findings and best practices and send it to all 72 school boards by December 2017. In addition, the Ministry has completed an evaluation of pilot projects funded in 2014/15 through the Healthy Eating in Secondary Schools Grants (HEG), to change secondary students' attitudes and behaviours about healthy eating. Altogether, 90 projects were funded for a total $3.2 million. The Ministry informed us that it will share lessons learned and best practices with school boards in October 2017.
• develop measurable objectives for healthy eating and measure progress in achieving these objectives. **Status: In the process of being implemented by August 2018.**	The Ministry plans to develop performance measures for the School Food and Beverage Policy during phase three of the policy review, expected to be completed by August 2018. According to the Ministry, it will try to align these performance measures with Ontario's work to promote and support well-being, which is intended to promote a positive sense of well-being in students and consists of four key components: positive mental health, safe and accepting schools, healthy schools, and equity and inclusive education. The Ministry also plans to consider appropriate monitoring roles for the Ministry and school boards.
Recommendation 3 The Ministry of Education should work with school boards to:	
• ensure that elementary school administrators and teachers receive sufficient training on how to incorporate daily physical activity into the school day; and **Status: In the process of being implemented by September 2017.**	In 2016, the Ministry began a process to review its Daily Physical Activity Policy using the same four-phase process described for the review of the School Food and Beverage Policy. At the time of our follow-up, the Ministry was working on phase three of the review (revising policies and developing performance measures), which it planned to complete by September 2017. In July 2017, the Ministry signed a one-year agreement with Ontario Physical and Health Education Association to develop resources, professional learning/training (in-person; online), and awareness/communication products to advance the revised Daily Physical Activity Policy.
• establish a way to measure and monitor whether students are provided with the required daily physical activity. **Status: In the process of being implemented by December 2017.**	The Ministry informed us that, similar to the School Food and Beverage Policy, it would try to align the performance measures developed in phase three of the Daily Physical Activity Policy review with Ontario's work to promote and support well-being, which it expects to finalize by December 2017. The Ministry also plans to consider appropriate monitoring roles for the Ministry and school boards.

Committee Recommendation	Status Details
Recommendation 4 The Ministry of Education should:	
• assess options (including best practices in other jurisdictions) for increasing physical activity levels for both elementary and secondary school students; and **Status: In the process of being implemented by January 2018.**	In 2013/14, the Ministry provided $1.3 million in funding for 70 projects through Physical Activity in Secondary Schools (PASS) grants. These grants were given to school boards and schools for initiatives aimed at changing the physical activity culture in secondary schools. The Ministry hired an external consultant to evaluate the outcomes of these initiatives. The consultant's final report (issued in 2016) found that the majority of projects reported increases in the number of students who: engage in regular physical activity at school; were more comfortable participating in fitness programs; and were more self-motivated to engage in physical activity. The Ministry is planning to share best practices identified through these initiatives with school boards in October 2017. In March 2017, the Ministry hired an external consultant to also evaluate whether the Ontario Physical and Health Education Association's (OPHEA) Healthy School Certification is an effective approach to support healthy schools activities, including increased physical activity. OPHEA is a not-for-profit organization that works in partnership with school boards, public health, government, non-government organizations, and private-sector organizations to develop programs and services that support healthy, active schools and communities. It provides certificates to schools that complete a six-step Healthy Schools Process and demonstrate innovative approaches to promoting health in their school community, with an emphasis on student engagement and community partnerships. The Ministry expects the consultant's evaluation to be completed by January 2018.
• set goals and targets for boards to increase physical activity in schools, and periodically monitor, measure, and publicly report on the progress made. **Status: Little or no progress.**	The Ministry has not made much progress on the recommendation to set goals and targets for school boards to increase physical activity in schools, and periodically monitor, measure, and publicly report on the progress made. In 2014, the government committed to a long-term goal for children and youth to have access to 60 minutes of physical activity connected to their school day. According to the Ministry, future measures related to physical activity—whether for the Daily Physical Activity policy implementation or the broader 60 minutes of physical activity initiative—are being developed to align with Ontario's work to promote and support well-being.

Chapter 3
Section
3.04

Hydro One—Management of Electricity Transmission and Distribution Assets

Standing Committee on Public Accounts Follow-Up on Section 3.06, *2015 Annual Report*

The Committee held a public hearing in March 2016 on our 2015 audit of Hydro One—Management of Electricity Transmission and Distribution Assets. It tabled a report in the Legislature resulting from this hearing in December 2016. The report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee endorsed our findings and recommendations. It made 10 additional recommendations and asked Hydro One to report back by April 2017. A number of issues raised by the Committee were similar to the observations we made in our 2015 audit, which we have also followed up on this year (see **Section 1.06**). Hydro One formally responded to our Office and the Committee on April 26, 2017, with an update on activities it has undertaken. We found that the update provided only information on actions taken to address our recommendations but not the Committee's recommendations.

In early May 2017, we requested Hydro One to provide further details and supporting documents for the activities it has taken. In response, Hydro One notified our Office that its update to our Office and the Committee was provided as a good faith effort and courtesy, and that Hydro One is no longer subject to inquiries by our Office. In June 2015, the government passed the *Building Ontario Up Act, 2015*, under which Hydro One is no longer an agency of the Crown; therefore, our Office no longer has the authority to do audit or follow-up work on Hydro One, and Hydro One is not required to participate in this follow-up.

Without receiving further details from Hydro One to verify and support the information in its update, our Office was only able to assess and report on the status of some, but not all, of our recommendations (see **Section 1.06**) and was not able to assess and report on the status of any of the Committee's recommendations.

The status of the Committee's recommendations is shown in **Figure 1**.

We conducted assurance work between April 1, 2017 and July 26, 2017. To meet new Canadian auditing standards, we requested Hydro One's CEO and/or Vice President to sign a management representation letter, dated September 1, 2017, at the completion of our work. The purpose of the letter was to obtain written representation from Hydro One that it had provided us with a complete update of the status of the recommendations made in the original audit two years ago. On August 29, 2017, Hydro One responded that it declined to sign this letter or any similar document. Hydro One indicated

Figure 1: Summary Status of Actions Recommended in December 2016 Committee Report
Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended				
	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	4					4
Recommendation 2	1					1
Recommendation 3	3					3
Recommendation 4	2					2
Recommendation 5	1					1
Recommendation 6	5					5
Recommendation 7	1					1
Recommendation 8	3					3
Recommendation 9	3					3
Recommendation 10	1					1
Total	**24**	**0**	**0**	**0**	**0**	**24**
%	**100**	**0**	**0**	**0**	**0**	**100**

that since it ceased to be an agency of the Crown following passage of the *Building Ontario Up Act, 2015*, it was not required to participate in this follow-up, and it was not appropriate for it to sign the letter.

Overall Conclusion

According to the information Hydro One provided to us, as of July 26, 2017, all of the Committee's recommendations have been classified as no longer applicable. As a result of the *Building Ontario Up Act, 2015*, Hydro One is not required to respond to our inquiries and participate in our follow-up work. We were therefore unable to assess the status of the Committee's recommendations.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status details that are based on responses from Hydro One, and our review of the information Hydro One provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 Hydro One: • provide the Committee with annual reliability targets over the next five years, starting with 2017, for its transmission system, both for its multi- and single-circuit systems; • provide a comparison of its five-year reliability targets with those established by comparable peer utilities in North America (and provide an explanation where its targets are weaker); • report back annually for the next five years, starting with the 2017 year, to the Committee on its achievement of these targets, including an assessment of the factors that contributed to meeting or not meeting the targets; and • provide the Committee with its risk management plan, including estimated costs, on climate change and detail how climate change is expected to impact the reliability targets of its transmission system. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.
Recommendation 2 Hydro One provide the Committee within six months with an assessment on the requirements of its preventive maintenance work orders, including how critical maintenance is defined, whether all critical maintenance work is completed on time, the extent and types of preventive maintenance that are required, and whether effective preventive maintenance programs are in place and followed for each key type of transmission asset. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.

Committee Recommendation	Status Details
Recommendation 3 Hydro One provide the Committee with: • its criteria for determining the appropriate timing for replacing key transmission assets, such as transformers, circuit breakers, towers, and wood poles; • a comparison of its criteria for determining the appropriate timing for replacing key transmission assets with those used by other peer utilities in North America; and • its own assessment of its capital deficit for each type of key transmission asset and the expected cost of asset replacement. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.
Recommendation 4 Hydro One provide the Committee within one year with an assessment of the Asset Analytics system (both for its transmission system and distribution system assets), including • whether the Auditor's concerns have been fully addressed; and • an analysis of how well the Asset Analytics system reflects the conditions of the assets in the field. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.
Recommendation 5 Hydro One update the Committee on the status of its new comprehensive security program that will apply to all electronic devices, including a target as to when all transmission assets will be in compliance with the new North American Electricity Reliability Corporation requirements. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.

Committee Recommendation	Status Details
Recommendation 6 Hydro One: • provide the Committee with annual reliability targets over the next five years, starting with 2017, for its distribution system; • provide a comparison of its five-year reliability targets with those established by comparable peer utilities in Canada (and provide an explanation where its targets are weaker); • report back annually for the next five years, starting with the 2017 year, to the Committee on its achievement of these targets, including an assessment of the factors that contributed to meeting or not meeting the targets; • provide the Committee with the results of its consultations with customers on service expectations, including reliability; and • provide the Committee with a risk management plan on climate change and detail how climate change is expected to impact reliability targets of its distribution system. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.
Recommendation 7 Hydro One provide the Committee with a summary of the results of the third-party assessment of the optimal length of its vegetation management cycle. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.

Committee Recommendation	Status Details
Recommendation 8 Hydro One provide the Committee with: • its criteria for determining the appropriate timing for replacing key distribution assets, such as transformers, circuit breakers, and wood poles; • a comparison of its criteria for determining the appropriate timing for replacing key distribution assets with those used by other peer utilities in Canada; and • its own assessment of its capital deficit for each type of key distribution asset and the expected cost of asset replacement. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.
Recommendation 9 Hydro One provide the Committee with a timetable to fully implement the usage of smart meters, including: • proactively identifying power outages; • using this information to dispatch work crews; and • the expected improvements to service and projected cost savings that are anticipated as a result. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.
Recommendation 10 Hydro One provide the Committee with a report on its major projects (>$1 million) completed in 2015. This report shall compare: the original project estimate without allowances; the approval amount, including allowances; and, the actual cost for each project. Hydro One will also report to the Committee again in one year and two years for the projects completed in 2016 and 2017, respectively. **Status: No longer applicable.**	We were unable to obtain further information from Hydro One in order to assess the status of the Committee's recommendation.

Chapter 3
Section
3.05

Metrolinx—Regional Transportation Planning

Standing Committee on Public Accounts Follow-Up on Section 4.08, *2014 Annual Report*

In November 2015, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2014 follow-up to our 2012 audit of Metrolinx—Regional Transportation Planning. The Committee tabled a report in the Legislature resulting from this hearing in June 2016. A link to the full report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee made six recommendations and asked the Ministry of Transportation (Ministry) and Metrolinx to report back by the beginning of October 2016. The Committee directed the recommendations to Metrolinx rather than the Ministry because the Regional Transportation Plan is under the responsibility of Metrolinx. The Ministry and Metrolinx formally responded to the Committee on October 5, 2016. A number of issues raised by the Committee were similar to the observations in our 2012 audit, which we followed up on in 2014. The status of each of the Committee's recommended actions is shown in **Figure 1**.

We conducted assurance work between April 1, 2017 and July 21, 2017, and obtained written representation from Metrolinx that on September 1, 2017 it has provided us with a complete update of the status of the recommendations made by the Committee.

Figure 1: Summary Status of Actions Recommended in June 2016 Committee Report
Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended			
	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2		1		1
Recommendation 2	6	3	2		1
Recommendation 3	3		3		
Recommendation 4	4	1	1	1	1
Recommendation 5	5	1	4		
Recommendation 6	1	1			
Total	**21**	**6**	**11**	**1**	**3**
%	**100**	**29**	**52**	**5**	**14**

Overall Conclusion

According to the information Metrolinx provided to us, as of July 21, 2017, 29% of the Committee's recommended actions had been fully implemented, and a further 52% of the recommended actions were in the process of being implemented. There has been little or no progress on one recommended action. Metrolinx has not provided information illustrating that comparators, such as the actual performance of GO Transit or the TTC, have been used when comparing the risks of traditional public procurement to the risks of Alternative Financing and Procurement projects.

Detailed Status of Recommendations

Figure 2 shows the recommendations and status details that are based on responses from Metrolinx, and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken
Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 Metrolinx should:	
• update the Committee on the results of the review of the Regional Transportation Plan and any associated changes to the Plan. **Status: In the process of being implemented by March 2019.**	Beginning in fall 2015, Metrolinx began a legislated review of the Regional Transportation Plan. Phase one of the review concluded in August 2016, with the release of a discussion paper. Metrolinx expects an updated draft of the Plan to be released for public consultation in 2017 and finalized in March 2019.
• publish a ten-year capital spending plan including information about what projects are planned, when construction will take place, estimated costs, and sources of funding. **Status: Will not be implemented.**	Metrolinx has not published its own ten-year capital spending plan in consolidated form. However, it has included information on the Regional Transportation Plan's projects—when construction will take place, estimated costs and sources of funding—across various documents, including: Ontario's 2017 Infrastructure Update, the Plan's Discussion Paper, Metrolinx's quarterly reporting to the Board, annual business plans, and five-year strategies. Also, in its 2016/17 Business Plan, Metrolinx introduced (for the first time) a five-year capital plan that provided a high level breakdown of capital investments until 2020/21. Metrolinx has informed our Office this will also be included in subsequent five-year business plans. Metrolinx has no plans to publish a ten-year capital spending plan.

Committee Recommendation	Status Details
Recommendation 2 Metrolinx should:	
• provide the Committee with information on the financial results of the UP Express after its first full year of operation and make information publicly available; **Status: In the process of being implemented by March 2018.**	UP Express' first full year of operation ended in June 2016. The first 10 months of the year are reported in Metrolinx's 2015/16 Annual Report. The Annual Report shows that UP Express fare revenue was $41.8 million lower than expected in 2015/16 due to low ridership. The remaining two months of the UP Express' first year will be reported in Metrolinx's 2016/17 Annual Report scheduled to be tabled in the Legislature by the end of March 2018.
• provide the Committee with the new ridership study (when completed) and information about the level of ridership needed at the new fare levels for the UP Express to operate on a break-even basis; **Status: In the process of being implemented by October 2017.**	In December 2015, Metrolinx commissioned a ridership study for UP Express to be completed in April 2016. However, the work was stopped following fare changes announced in February 2016 as it was no longer relevant. A new study was commissioned in October 2016 to be completed by November 2016. At the time of our follow-up, Metrolinx was still reviewing the results of the study and anticipated the report to be completed by October 2017. To date, Metrolinx has not provided the Committee with information on the level of ridership required to break even. However, Metrolinx anticipates that at a minimum the first two years of UP Express will be subsidized.
• explore ways to integrate the UP Express with the TTC rather than operate it as a separate rail service; **Status: Will not be implemented.**	Metrolinx did not explore ways to integrate the UP Express with TTC, as it has decided to integrate operational responsibility of UP Express with GO Transit under the responsibility of Metrolinx's Chief Operating Officer.
• provide better signage to help TTC users and users at the airport to find the UP Express, and ensure lower fares and the discount for PRESTO card holders are effectively publicized; **Status: Fully implemented.**	Metrolinx undertook a variety of marketing and advertising activities to promote the new lower fare of $9 (with a PRESTO card) for the UP Express. Additional signage has been installed in Terminal 1 and Terminal 3 at Toronto Pearson Airport, as well as throughout the Skywalk (near Union Station) and integrated with PATH network signage.
• provide the Committee with information on the extent of PRESTO fare card usage on the UP Express as well as ridership data (contrasting ridership at peak demand with non-peak demand) since June 2015; and **Status: Fully implemented.**	An update on ridership and fare card usage was provided to the Committee in October 2016 and to our office in May 2017. For the period of June 2016 to May 2017, PRESTO usage accounted for 33% of total UP Express ridership, up from 28% in the previous year. Prior to the fare decrease on March 9, 2016, average daily ridership was 2,168 passengers. After the fare decrease, average daily ridership was 7,592 passengers (4,844 at non-peak and 2,749 at peak) for the period of March 2016 to May 2017.
• provide the Committee with its plan for the electrification of the UP Express and other rail lines. **Status: Fully implemented.**	Metrolinx provided an update to the Committee in October 2016. Metrolinx has included the electrification of UP Express and GO services as part of the GO Regional Express Rail program. The UP Express is included in the electrification scope along the Kitchener Corridor. Prior to the start of electrification, a technical analysis is required under the Transit Project Assessment Process, which began in June 2017.

Committee Recommendation	Status Details
Recommendation 3 Metrolinx should:	
• provide the Committee with the final cost of the restoration of the Union Station train shed once the project is complete; **Status: In the process of being implemented by December 2017.**	Metrolinx has indicated that the completion of the Union Station train shed is anticipated in December 2017. Metrolinx has committed to communicating the final costs of the Union Station train shed in a letter to the Standing Committee on Public Accounts.
• continue to improve its project management systems to ensure effective monitoring of individual projects and regularly report publicly on the progress of projects, including status and costs compared to budget; and **Status: In the process of being implemented by November 2017.**	Metrolinx is in the process of implementing new budget management and reporting software to assist in the monitoring of projects. Specifically, the software will allow for the consolidation of actual and budgeted costs, enabling better monitoring of project costs. The software has been partially implemented for the Rapid Transit program and is currently being configured to accommodate the Regional Express Rail program. Metrolinx anticipates the implementation to be completed by November 2017. These changes followed our 2012 audit's recommendation to improve project management information systems.
• ensure that contracts for future projects have firm ceiling prices where appropriate, and that these contracts are monitored for adherence to the ceiling prices; **Status: In the process of being implemented by March 2019.**	In addition to project budgets, Metrolinx may establish contingencies (dollar amounts above the budget) at the time of awarding the contract. These are not disclosed to the contractor and are intended to address risks that could not have been foreseen when the contract was awarded. Starting on July 10, 2017, Metrolinx's new procurement IT system now requires a contract value to be entered or the procurement cannot proceed. The contract value sets the limit that vendor receipts, purchase orders, and invoices cannot exceed. If these do exceed the total contract value, the system will not allow payment to occur without an approval override. Metrolinx's policies outline the various authorization levels required for the approval of contracts and changes to contingencies. However, these policies do not explicitly require all contracts to have a firm ceiling price. Metrolinx has informed our office that it will revise the Metrolinx Procurement Policy before March 31, 2019 to require ceiling prices for project contracts.

Committee Recommendation	Status Details
Recommendation 4 Metrolinx should:	
• provide the Committee with detailed risk assessments, the assignment of risks between Metrolinx and the AFP contractor, and the methodology used to justify the use of the AFP procurement model for the Eglinton Crosstown; **Status: In the process of being implemented by October 2017.**	In February 2016, Metrolinx provided the Committee with a value-for-money assessment report for the Eglinton Crosstown Alternative Financing and Procurement (AFP) completed by Infrastructure Ontario. This assessment identified estimated cost savings but, as noted in the Committee's report, it "did not provide details on the valuation of the risks associated with the two delivery methods." At the time of our follow-up, Metrolinx had not provided any additional materials about the AFP to the Committee. However, Metrolinx had obtained additional details from Infrastructure Ontario on the valuation of risks for the Eglington Crosstown and was awaiting confirmation from Infrastructure Ontario for the release of this information to the Committee.
• where appropriate, use comparators such as the actual performance of GO Transit or the TTC rather than relying on industry standards compiled by external advisors when comparing risks of traditional public procurement versus the risks of AFP; **Status: Little or no progress.**	Metrolinx uses Infrastructure Ontario's standard methodologies and relies upon their expertise relating to value-for-money assessment of procurement options. During our follow up work, Metrolinx could not provide us with information illustrating that comparators, such as the actual performance of GO Transit or the TTC, have been used when comparing risks of traditional public procurement to the risks of AFP. However, Metrolinx advised us that it will co-ordinate with Infrastructure Ontario to identify relevant comparators to support the assessment of the risks associated with traditional public procurements versus the risks of AFP.
• publish the detailed risk assessments used to justify AFP procurement, as well as the methodology for assessing these risks, so that independent experts can verify the results; **Status: Will not be implemented.**	Metrolinx provided the Committee with the public value-for-money assessment report to justify the AFP procurement for the Eglinton Crosstown. According to Metrolinx, detailed information relating to the assessment contains commercially sensitive information relating to the successful proponent that cannot be published.
• whenever appropriate, publish contracts, including the schedules outlining the scope of contracts. **Status: Fully implemented.**	Starting on March 31, 2017, Metrolinx now makes bid results publicly available for all procurement processes closed and awarded after January 1, 2017. This includes basic information on the bids such as the submitting vendors, awarded vendor, award date and award amount. Also included is a copy of the tender document which includes the scope of work. The information can be found on Metrolinx's website here: **www.metrolinx.com/tenders/en/tenders.aspx.**

Committee Recommendation	Status Details
Recommendation 5 Metrolinx should:	
• report to the Committee with an outline of next steps to achieve fare integration within GTHA transit systems and to resolve outstanding issues related to the deployment of PRESTO on these systems; **Status: In the process of being implemented by December 2018**	As of March 2017, PRESTO's overall usage within participating Greater Toronto and Hamilton Area (GTHA) transit systems (excluding TTC and UP Express) was 56%, compared to 17% at the time of our 2012 audit and 52% at the time of our 2014 follow-up. As of March 2017, PRESTO's usage was 12% on the TTC and 19% on UP Express. According to their 2017-2022 five-year business plan, Metrolinx's goal is to have 80% of transit trips on participating systems paid for with PRESTO by 2022. As reported to the Committee, work is currently under way to assess potential fare structures, and to review customer and traveler impacts, and approaches to implementation. A business case of various options is expected to be done by September 2017. At the time of our audit, Metrolinx anticipated the Fare Integration Strategy to be completed by December 2018.
• consider offering operating subsidies in order to address inter-agency conflicts with respect to fare-sharing; **Status: In the process of being implemented by December 2018.**	Metrolinx has an existing fare integration arrangement with several municipal service providers that allows travelers combining travel on GO Transit and local transit services to receive discounted fares (at Metrolinx's cost). In 2015/16, this "co-fare" program supported integrated use of local and regional transit and provided $12.8 million in subsidies to 11 municipal service providers. In 2016/17, $13.6 million was provided to 13 municipal service providers. Metrolinx has informed us that the Fare Integration Strategy, expected to be completed in December 2018, will explore different fare-sharing options for transit trips that cross multiple municipalities.
• provide the Committee with a detailed update on how Metrolinx is addressing the risks identified in the technology audit; **Status: Fully implemented.**	In 2014, Metrolinx hired a third party to conduct a technology audit of the PRESTO system. Metrolinx provided the Committee with two updates, in September 2016 and February 2017, outlining the status of actions taken to address risks identified in the audit. One of the main actions taken was a PRESTO software and hardware update in October 2016. This upgrade included testing to ensure capacity for PRESTO adoption on the TTC.
• provide the Committee with any amendments to the 2006 Master Supply and Services Agreement between the Province and the contractor; and **Status: In the process of being implemented by October 2017.**	In October 2016, Metrolinx provided the Committee with previous amendments to the 2006 Master Supply and Services Agreement between the Province and the contractor. In June 2016, Metrolinx signed a six-year extension of the agreement. It included the renewal of all services with the contractor and renegotiated rates. Metrolinx provided our office with a copy of the revised agreement with the contractor and plans to share a copy with the Committee by the end of October 2017.

Committee Recommendation	Status Details
• include the cost of fully implementing PRESTO across GTHA transit systems in PRESTO's projected capital cost and monitor and report the actual cost in relation to the projection in annual reports. **Status: In the process of being implemented by March 2018.**	According to its most recent Annual Report, Metrolinx spent $133.6 million in capital expenditures on the implementation of PRESTO in 2015/16. The report does not compare this to forecasts in previous business plans and does not include total costs-to-date for implementing PRESTO. As reported to the Committee in October 2016, total capital costs for the implementation of PRESTO in the GTHA and Ottawa was $749 million as of March 2016. Forecasted capital expenditures for the next five fiscal years are provided in Metrolinx's annual business plans. The 2016/17 Business Plan forecasts $235 million in capital investments for PRESTO in 2016/17, $78 million in 2017/18, and $35 million each year in 2018/19, 2019/20, and 2020/21. Based on the above estimates, by March 31, 2021, Metrolinx will have spent a total of $1.167 billion on capital investments related to the implementation of PRESTO. Metrolinx has committed to reporting actual capital expenditures against previous forecasts in all annual reports starting with the 2016/17 Annual Report, expected to be tabled in the Legislature by March 2018.
Recommendation 6 Metrolinx should report to the Committee on what steps the agency has taken to relieve traffic and transit congestion in downtown Toronto. **Status: Fully implemented.**	In October 2016, Metrolinx provided the Committee with an update that summarized completed and ongoing initiatives with particular benefits for downtown Toronto. The initiatives outlined included the expansion of GO rail and municipal bus networks, the implementation of UP Express, expansion of PRESTO, the Eglington Crosstown LRT, York Region and Mississauga's bus rapid transit, and the downtown relief line.

Ministry of Government and Consumer Services

ServiceOntario

Standing Committee on Public Accounts Follow-Up on Section 4.09, *2015 Annual Report*

In March 2016, the Committee held a public hearing on our 2015 follow-up to our 2013 audit of ServiceOntario. The Committee tabled a report on this hearing in the Legislature in June 2016. The full report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee made five recommendations and asked the Ministry of Government and Consumer Services (Ministry) to report back by early October 2016. The Ministry formally responded to the Committee on September 26, 2016. A number of the issues raised by the Committee were similar to the audit observations in our 2013 audit and 2015 follow-up. The status of each of the Committee's recommended actions is shown in **Figure 1**.

We conducted assurance work between April 1, 2017, and July 4, 2017, and obtained written representation from the Ministry that on September 1, 2017, it has provided us with a complete update of the status of the recommendations made by the Committee in its report.

Figure 1: Summary Status of Actions Recommended in June 2016 Committee Report
Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended			
	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	2		2		
Recommendation 2	1	1			
Recommendation 3	2	1	1		
Recommendation 4	1	1			
Recommendation 5	1				1
Total	**7**	**3**	**3**	**0**	**1**
%	**100**	**43**	**43**	**0**	**14**

Overall Conclusion

According to the information the Ministry and ServiceOntario provided to us, as of July 4, 2017, about 43% of the Committee's recommendations had been fully implemented and about 43% of the recommendations were in the process of being implemented. ServiceOntario will not be implementing one recommendation. For example, ServiceOntario had fully implemented recommendations relating to providing updates on accessible parking

permits and actions taken as a result of high-risk privacy breaches. As well, ServiceOntario was in the process of implementing recommendations relating to areas such as improving uptake of online services and providing a business case for a single digital identity. However, ServiceOntario is not planning to implement any interim measures that permit the sharing of address-change information between multiple programs.

Detailed Status of Recommendations

Figure 2 shows the recommendations and the status of each based on responses from the Ministry and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken

Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 ServiceOntario continue to examine ways to improve uptake of online services while balancing the accessibility of services for Ontarians, and provide the Committee with an update on online service usage. **Status: In the process of being implemented by March 2018.**	ServiceOntario actions and plans to further grow uptake in the future include: • the introduction in October 2016 of a simplified email reminder system for vehicle plate-sticker renewal notices, accompanied by a six-week social-media advertising campaign launched in January 2017, leading to 18,500 clients registering for email reminders by mid-May 2017; • plans to offer email reminders for driver's licence renewals starting in September 2017; • simplification in November 2016 of the paper-based vehicle licence-plate-sticker renewal notice, which led to a 40% increase in online sticker renewals in the four months from January to April 2017, compared to the same four months of 2016; • updating the online Service Finder (previously called Service Location Finder) in February 2017, which makes it easier for people to learn about ServiceOntario's online services; • updating the Integrated Address Change function in March 2017 to improve the online verification process, which makes it simpler for users to simultaneously change their address on both their driver's licence and health card; and • plans to increase awareness of ServiceOntario online offerings through public campaigns, including promotion of the "4-in-1 baby bundle" (birth registration, birth certificate, social insurance number, Canada and Ontario child benefits) in 2017/18, and implementation of online photo-health-card renewals by March 2018. Some of the above improvements slightly increased the uptake of online services in 2016/17, with driver and vehicle services rising to almost 17% and health services to 13%. In 2015/16,14% of driver and vehicle services were completed online and 12% of health services. ServiceOntario indicated that it will continue to ensure its services are broadly accessible to all segments of the population. It also plans to work closely with Ontario's Chief Digital Officer, appointed in March 2017, to improve existing online services.

Committee Recommendation	Status Details
ServiceOntario should provide the Committee with a three-year plan detailing further changes it plans to make to increase the public's use of online transactions and new targets for online transactions, while maintaining equity of access to services for those without Internet access or who require in-person assistance. ServiceOntario should report back to the Committee at the end of the three-year period. **Status: In the process of being implemented by March 2019.**	ServiceOntario's September 2016 response to the Committee included a three-year plan ending in March 2019 to increase uptake of online services. The plan was to focus on driver, vehicle, and health services. These three services account for over 70% of transaction volumes and so present maximum opportunity to increase online uptake by making clients more aware of them, and making the services more user-friendly. According to ServiceOntario, online service uptake is projected to be at least 35% of all services by the end of fiscal 2018/19, up from 31% in fiscal 2015/16.
Recommendation 2 ServiceOntario provide an update on what impact the new accessible parking permit policy and permit design have had on improving the permit- issuing process and identifying abusers of the permit system. **Status: Fully implemented.**	ServiceOntario's actions to improve controls over accessible parking permits included: • implementation of a new process in January 2016 that requires clients to show identification to prove their legal name, date of birth and signature, to help reduce the risk of multiple permits issued for one person; • improved permit security through various new design elements, including machine-readable barcodes intended to reduce the risk of forgeries; • development of an Accessible Parking Permit Municipal Enforcement Guidebook in January 2016 to guide bylaw enforcement officers on the permit seizure process; • collaboration with municipalities, which enforce accessible parking- permit-related bylaws, to identify the most appropriate ways to track permit seizures (enforcement officers seized 1,347 permits in 2016, up 31% from 1,030 in 2015); • improved timeliness of permit cancellations for deceased individuals, achieved by monthly cross-checks with other provincial agencies, that led to 12,789 such cancellations in 2016, up from 9,957 in 2015; and • formalized processes for escalating suspected fraudulent cases to ServiceOntario's internal Risk Management Unit.

Committee Recommendation	Status Details
Recommendation 3	
ServiceOntario provide the Committee with a timetable for preparing a comprehensive business case for an integrated smart card (or similar alternative) that includes implementation costs; the ministries and services that could participate in an integrated smart card; operational and cost savings that ministries would achieve; strategies to mitigate privacy concerns; and an implementation plan. **Status: Fully implemented.**	As part of the September 2016 response to the Committee, ServiceOntario concluded that a single digital identity that includes smart card integration would be more beneficial to Ontario. In January 2017, ServiceOntario had discussions with Treasury Board Secretariat, eHealth Ontario, and the ministries of Health and Long-Term Care, Transportation, Finance, and Community and Social Services. ServiceOntario and these organizations plan to build a business case for a single digital identity focusing on privacy-friendly design, security, efficiencies that will result in cost savings for ministries and an implementation roadmap. ServiceOntario cautions that the complexity of this initiative means the single digital identity business case and policy framework depend on significant co-operation by several provincial and federal government organizations. A phased approach will be taken, and timelines may be adjusted based on the needs of partners. The timelines for the business case have already been delayed by over a year from the initial projections submitted to the Committee in September 2016 due to these challenges. In late July 2017, ServiceOntario submitted and received government approval for a policy framework that will provide the basis for the single digital identity business case.
The business case should also include research on lessons learned by other jurisdictions that have already implemented an integrated smart card. ServiceOntario should provide the Committee with this business case when it is completed. **Status: In the process of being implemented by November 2018.**	Following Cabinet's approval of the single digital identity policy framework, ServiceOntario has committed to providing Cabinet with a comprehensive business case by November 2018. The comprehensive digital identity business case will include: lessons learned by other jurisdictions on similar initiatives; implementation options; projected costs and savings; implementation strategy; and policy, legislative and regulatory changes required to implement the digital identity program in Ontario.

Committee Recommendation	Status Details
Recommendation 4 ServiceOntario should provide the Committee with a summary of the number and types of privacy breaches that have occurred with respect to ServiceOntario operations over the last three years, the action(s) taken as a result of breaches considered to be high-risk, and any initiatives planned to mitigate future privacy breaches. **Status: Fully implemented.**	ServiceOntario defines a minor privacy breach as one which occurs through inadvertent or unintentional errors, and in which fewer than 10 personal information records are accessed by or exposed to individuals who should not have access to them. A major privacy breach is defined as one in which 10 or more personal information records are accessed, or where the breach occurred as a result of intentional wrongdoing by ministry staff or operators of ServiceOntario locations. In addition, ServiceOntario may classify an incident as a major breach if the personal information involved is particularly sensitive, or if other factors increase risk. In the three years between 2013 and 2015, there were a total of 25 major and 1,189 minor privacy breaches. ServiceOntario and the Ministry's Privacy Office review and classify all privacy breaches as minor or major, and recommend improvements aimed at preventing future breaches. *Actions taken to prevent future major breaches include:* • annual training in Standards of Conduct and Ethics, and in privacy and security, introduced in 2015 for all front-line and production staff; • updates to ServiceOntario privacy guidance, with additional specific examples of improper access; • privacy training for ServiceOntario's managers of vital events (for example, births, marriages, and deaths) in September 2016; • new and revised privacy and security policies delivered to all vital events staff, and Vital Statistics Act Oaths of Secrecy re-administered in October 2015; • privacy and security refresher training provided to ServiceOntario's Thunder Bay vital events staff in 2015, and Toronto/Ottawa vital events staff in 2016; • refresher privacy training delivered by the Ministry's Privacy Office to about half of ServiceOntario contact-centre staff, with remaining staff to receive training by December 2017; • development of an audit framework for ServiceOntario's vital event activities, currently undergoing validation review by the Ontario Internal Audit Division, to identify unauthorized access; and • updated Privacy Guidance and Documentation, with ministry-wide distribution planned for March 2018. *Systems and Security* ServiceOntario and the Ministry's Privacy Office have worked with the Ministry of Transportation to improve the usability and functionality of logging and audit tools in the Ministry of Transportation's Licensing and Control System. These logs and tools detect and investigate privacy breaches involving inappropriate access to the Ministry of Transportation information systems by ServiceOntario staff–an area where privacy breaches have occurred in the past. *Mailroom, Print and Distribution* ServiceOntario requested the Ontario Internal Audit Division to conduct a full review of the process of logging and reconciling returned and cancelled items, including OHIP cards and Ontario photo cards. The review was completed in January 2017 and recommendations for improvement, including a new policy manual, are to be implemented by March 2018.

Committee Recommendation	Status Details
	Recent Major Privacy Breach Subsequent to ServiceOntario's September 2016 response to the Committee, a major privacy breach occurred in April 2017 involving about 2,000 children's health-card renewal notices. Each of these notices, produced by ServiceOntario and mailed to clients, contained the personal information of another child on the reverse side. The personal information included the children's name, health card number (without version code), residential and/or mailing addresses and date of birth. In May 2017, to reduce the risk of future incidents, ServiceOntario changed all renewal notices. The changes included printing only minimal personal information, and only on one side of the notices rather than on both.
Recommendation 5 As an interim measure until an integrated smart-card initiative is further developed, ServiceOntario should provide the Committee with an action plan and timetable for introducing new measures that would permit the sharing of address-change information between multiple programs. **Status: Will not be implemented.**	ServiceOntario is not considering any measures in the interim, while the single digital identity is further developed, that would permit the sharing of address-change information between multiple programs.

Chapter 3
Section
3.07

Toward Better Accountability

Standing Committee on Public Accounts Follow-Up on Chapter 5, *2015 Annual Report*

The Committee held a public hearing on our 2015 Chapter 5 Toward Better Accountability in April 2016. It tabled a report in the Legislature resulting from this hearing in December 2016. The full report can be found at **www.auditor.on.ca/en/content/standingcommittee/standingcommittee.html**.

The Committee made six recommendations, consisting of eight action items, and asked that Treasury Board Secretariat report back by the beginning of April 2017. Treasury Board Secretariat formally responded to the Committee on April 5, 2017. Many issues raised by the Committee were similar to those in our audit observations in 2015, which we have also followed up on this year (see **Chapter 1**). The status of each of the Committee's recommended actions is shown in **Figure 1**.

We conducted assurance work between March 3, 2017 and July 26, 2017, and obtained written representation from Treasury Board Secretariat on September 12, 2017, that it had provided us with a complete update of the status of the recommendations the Committee made.

Figure 1: Status of Actions Recommended in December 2016 Committee Report
Prepared by the Office of the Auditor General of Ontario

		Status of Actions Recommended			
	# of Actions Recommended	Fully Implemented	In Process of Being Implemented	Little or No Progress	Will Not Be Implemented
Recommendation 1	1	1			
Recommendation 2	1	1			
Recommendation 3	2	2			
Recommendation 4	1		1		
Recommendation 5	2		2		
Recommendation 6	1		1		
Total	**8**	**4**	**4**	**0**	**0**
%	**100**	**50**	**50**	**0**	**0**

Overall Conclusion

According to the information Treasury Board Secretariat provided to us, as of July 26, 2017, 50% of the Committee's recommended actions had been fully implemented, and a further 50% of the recommended actions were in the process of being implemented.

Figure 2 shows the recommendations and the status details that are based on responses from Treasury Board Secretariat, and our review of the information provided.

Figure 2: Committee Recommendations and Detailed Status of Actions Taken
Prepared by the Office of the Auditor General of Ontario

Committee Recommendation	Status Details
Recommendation 1 Treasury Board Secretariat provide the Committee with statistics on the timeliness of all agency submissions and public reporting of annual reports for agencies' 2015 fiscal year results. **Status: Fully implemented.**	Treasury Board Secretariat provided the Committee with its most up-to-date statistics on the timeliness of agency annual report submissions and posting to a website for the 2015/16 fiscal year. The timeliness requirements of the Agencies and Appointments Directive as of its July 2016 revision were the basis for determining compliance. The statistics covered 100% of agencies (excluding advisory agencies), and the results were as follows: • Fifty percent of agencies submitted their annual reports within the 90 or 120 days required by the Agencies and Appointments Directive. • Seven percent of agency annual reports were approved and tabled within 60 days of the responsible Minister receiving the report. • Fifty percent of agency annual reports were posted on a website within 30 days of receiving ministerial approval or being tabled in the Legislature.

Committee Recommendation	Status Details
Recommendation 2 Treasury Board Secretariat provide the Committee with a summary of steps already taken to improve the timely ministerial approval of agency annual reports, as well as a detailed plan outlining what further steps will be taken to improve the timeliness of these approvals. **Status: Fully implemented.**	The steps already taken to improve the timely ministerial approval of agency annual reports are: • *Compliance attestations*–The Agencies and Appointments Directive, effective February 2015, requires that the Chairs and CEOs of provincial agencies attest to their organization's compliance with applicable legislation, regulation, directives and policies as a part of the government's broader Certificate of Assurance process. This includes compliance with the Agencies and Appointments Directive's 90- or 120-day deadlines for submitting annual reports. The Compliance attestation is required for board governed, adjudicative, regulatory and non-board governed agencies and was first implemented for fiscal 2015/16. • *Revision to the Agencies and Appointments Directive*–In July 2016, Treasury Board Secretariat revised the Agencies and Appointments Directive in response to a recommendation by the Office of the Auditor General of Ontario. The revision stipulates that the responsible Minister must approve an agency's annual report (and, where required by statute, table it in the Legislature) within 60 days of receiving it from the agency. The annual report must also be posted on the agency's or a government website within 30 days of tabling (if the report was tabled) or within 30 days of the Minister's approval if it was not tabled. Further steps to improve the timeliness of approvals are: • launching a compliance tracking system in May 2017. Ministries will continue to be responsible for tracking the status of documents for their agencies as they move through the approval process, but will now use the system to report to Treasury Board Secretariat when key milestones are approached and reached. The compliance tracking system gives Treasury Board Secretariat real-time information of all agencies' status in meeting their deadlines. Treasury Board Secretariat was planning to proactively reach out to ministries to ensure they meet their deadlines. • providing education and training on the compliance tracking system beginning in June 2017. Additional education and training will be provided as necessary. • assessing the compliance tracking system's effectiveness. Refinements and enhancements to the system are expected to be completed by October 2017. Treasury Board Secretariat will be able to identify approaching deadlines and proactively intervene to improve compliance.

Committee Recommendation	Status Details
Recommendation 3	
Treasury Board Secretariat provide the Committee with a jurisdictional analysis of timelines and best practices for filing in other provincial governments. **Status: Fully implemented.**	Treasury Board Secretariat provided the Committee with the requested jurisdictional analysis of timelines for filing in other provincial governments. Some highlights are: • In most provinces, there is no centralized process for receiving agencies' annual reports. The Minister and ministries responsible for these agencies receive, approve, table and post their annual reports. • The approvals required to table/post agencies' annual reports vary between jurisdictions. • Newfoundland and Labrador estimates that approximately 70% of annual reports are submitted on time, and delays are usually due to the timing and the availability of the agency's audited financial statements. Agencies typically table their annual reports within the required time frames. • New Brunswick has a best practice of providing guidance material and tools relating to the annual report process. It hosts a kick-off meeting each year to launch this process. This meeting provides an opportunity to share the past year's performance and new requirements or process improvements. There is also a question-and-answer session on key issues.
As well, provide the steps and associated time frames Treasury Board Secretariat will take to better align Ontario with best practices used in other provinces for the timely release (or tabling) of annual reports. **Status: Fully implemented.**	To better align Ontario with best practices, the Treasury Board Secretariat is taking/will take the following steps: • Treasury Board Secretariat implemented the education, training and communication best practice from New Brunswick. For example, the kick-off meeting identified as a best practice in New Brunswick was incorporated into the training performed in June 2017. • In addition, best practices identified from Newfoundland and Labrador included using a calendar and timeline tracker to ensure that the ministries were able to see due dates. These features were added into the functionality of the tracking system along with early warning notifications.
Recommendation 4	
Treasury Board Secretariat provide the Committee with a plan to engage the Clerk of the Legislative Assembly to ensure legislators are notified when a report has been released, including timelines. **Status: In the process of being implemented by April 2018.**	Treasury Board Secretariat consulted with the Clerk of the Legislative Assembly of Ontario in July 2017 on a proposed method for notifying elected officials and the Standing Committee on Government Agencies. Subsequently, Treasury Board Secretariat received government approval to update the Agencies and Appointments Directive to require tabling of all provincial agency annual reports. This will result in elected officials being notified through the tabling process when an annual report is publicly released. Treasury Board Secretariat expects the updates to the Directive will be ready by April 2018. Additionally, Treasury Board Secretariat is working on options for changing legislation to be consistent with the Agencies and Appointments Directive for the submitting, tabling and posting of all applicable agency annual reports. Treasury Board Secretariat is expected to finalize the changes in fall 2017.

Committee Recommendation	Status Details
Recommendation 5	
Treasury Board Secretariat provide the Committee with a summary of the results of the legislative review that has been undertaken, including the identification of opportunities to:	Treasury Board Secretariat provided the Committee with a summary of the results of its legislative review. The review identified all statutory references to both the preparation and the tabling of provincial agency annual reports. It found 129 references to 119 provincial agencies associated with 19 ministries in 63 statutes, 10 regulations and five Orders-in-Council.
• co-ordinate legislative amendments to help eliminate inconsistencies in reporting requirements between the Agencies and Appointments Directive, applicable legislation, and agencies' Memorandums of Understanding; and **Status: In the process of being implemented by fall 2017.**	Based on its review, Treasury Board Secretariat analyzed options to help eliminate inconsistencies in reporting requirements, such as standardizing all statutory language related to provincial agency annual report production, amending legislation and/or amending the Agencies and Appointments Directive. Treasury Board Secretariat expects to present the Committee with a more specific identification of the opportunities that will be pursued by fall 2017.
• create a more consistent way to publicly report all annual reports. **Status: In the process of being implemented by fall 2017.**	Treasury Board Secretariat is also considering approaches that would create a more consistent way to publicly report all annual reports. This might involve amending legislation and/or amending the Agencies and Appointments Directive. Treasury Board Secretariat expects to present the Committee with a more specific identification of the opportunities that will be pursued by fall 2017. Once the opportunities are more specifically laid out and action is taken (for example, if legislation is to be amended, once the amendments are made), Treasury Board Secretariat will update guidance material to reflect any changes made.
Recommendation 6	
Treasury Board Secretariat, in consultation with the Clerk of the Legislative Assembly, develop a mechanism for tracking the public release of annual reports and determine how best to make this information available to the Members of the Legislative Assembly. This tracking mechanism should include required time frames for the public release/tabling of each agency's annual report and the actual release date. **Status: In the process of being implemented by fall 2017.**	Treasury Board Secretariat implemented a compliance tracking system in May 2017. Ministries will continue to be responsible for tracking the status of documents for the agencies over which they have oversight as the documents move through the approval process, but will then have to report to Treasury Board Secretariat when key milestones are approached and reached. This tracking system will give Treasury Board Secretariat information on all agencies' status in meeting their deadlines. Since ministries will be responsible for providing updates as the status changes, Treasury Board Secretariat will be able to proactively intervene to improve compliance. Treasury Board Secretariat will seek to amend the Agency and Accountability Directive to include notification methods of making members of the Assembly aware of the publication of provincial agency annual reports. These notification methods are expected to align with the legislative amendments expected to be updated by Fall 2017. In July 2017, Treasury Board Secretariat met with the Clerk of the Legislative Assembly of Ontario to discuss the plan for seeking legislative changes.

Chapter 4

Follow-Up on Audit Recommendations from 2012 to 2016

1.0 Summary

All of our value-for-money audit reports include specific recommended actions that aim to promote accountability, transparency and better services for Ontarians, and improve efficiency and cost-effectiveness.

These goals are at risk when recommended actions are not implemented in a timely way—or not implemented at all.

Two years after we publish audit reports, we follow up on the status of actions taken on our recommendations that ministries and broader-public-sector organizations agreed to when the initial audit was completed. (**Chapter 1** of this volume contains our follow-ups on recommendations in our *2015 Annual Report*.)

This year, in an expanded effort to track the status of our past recommendations, we return to our annual reports of 2012, 2013 and 2014 to, effectively, "follow up on the follow-ups." In **Section 4.0**, we also report on the status of recommended actions of the Standing Committee on Public Accounts.

Between 2012 and 2014, we audited a total of 38 ministries, Crown agencies and broader-public-sector organizations, and recommended 622 actions overall. From our review this year of the status of those recommended actions, we noted the following:

- **Implementation of recommended actions within two years after issuance of the initial audit report continues to increase.** The two-year average implementation rate of ministries and broader-public-sector agencies has been steadily increasing. For example, the implementation rate at the time of our two-year follow-ups has trended upward: 20% in 2012, 29% in 2013 and 40% in 2014.
- **The average implementation rate for 2012, 2013 and 2014 continued to increase.** From our work this year following up on recommended actions from 2012, 2013 and 2014, we found that the implementation rate increased to about 50% for each of those three years.
- **The average implementation rate is lower than expected.** Although there has been a positive trend to implement recommended actions, we would have expected to see a higher implementation rate for 2012 and 2013, given that we issued, and management accepted, these recommendations more than four years ago.
- **Implementation lagging for short-term recommendations.** We classified as short-term those recommended actions that could reasonably be achieved within two years. We found that 47% of the ones made in 2012 (five years ago), 38% of the ones from 2013 (four years ago), and 39% from 2014 (three years ago) were still outstanding.

- **Pressing issues still not addressed at some ministries.** For example:
  - All 21 recommended actions in our *2014 Annual Report* on Palliative Care were still in the process of being implemented, including one calling for a review of the way nurse practitioners are deployed in order to provide patients with 24/7 access to palliative care at home; and another recommending consideration of new options such as creating additional palliative-care teams to support family physicians who deliver home-based palliative care.
  - The Ministry of Community Safety and Correctional Services still had 21 actions outstanding of the 46 recommended in 2012 and 2014, including one that called for it to strategically target resources to higher-risk offenders so as to reduce high reoffend rates.
  - Our 2014 audit of residential services for people with developmental disabilities, run by the Ministry of Community and Social Services, recommended 31 actions. Twenty remain outstanding, including one that the Ministry develop a consistent prioritization process across the province to ensure services are administered consistently and equitably, and that those most in need receive required services.

2.0 How We Evaluated Implementation

We recommended a total of 622 actions in our 2012, 2013 and 2014 annual reports. Based on our review this year, we agreed with auditees that 24 of the actions were "no longer applicable," which left a total of 598 recommended actions.

We obtained self-assessments by auditees of their progress in implementing the 2012, 2013 and 2014 recommended actions as of March 31, 2017, along with supporting documentation.

Our review work consisted of enquiries and reviews of the supporting documentation to gain assurance that each recommended action was in fact fully implemented. In certain cases, we also conducted further sample testing to confirm the status of the recommended actions.

We also obtained information and documentation for recommended actions assessed as "no longer applicable," and "will not be implemented," to determine the reasonableness of the rationale for not completing them.

We conducted our work between April 1, 2017, and August 31, 2017, and obtained written representation from the auditees that they provided us with a complete update of the status of the recommendations we made in the original audits.

As this follow-up work is not an audit, we cannot provide complete assurance that the recommended actions have been implemented effectively.

3.0 Detailed Findings

3.1 Overview

Of the total 598 recommended actions that we expected to be implemented from our 2012, 2013 and 2014 annual reports, we found that only about half had been fully implemented. The remaining half were either in various stages of implementation, or the auditee determined they would no longer be implemented.

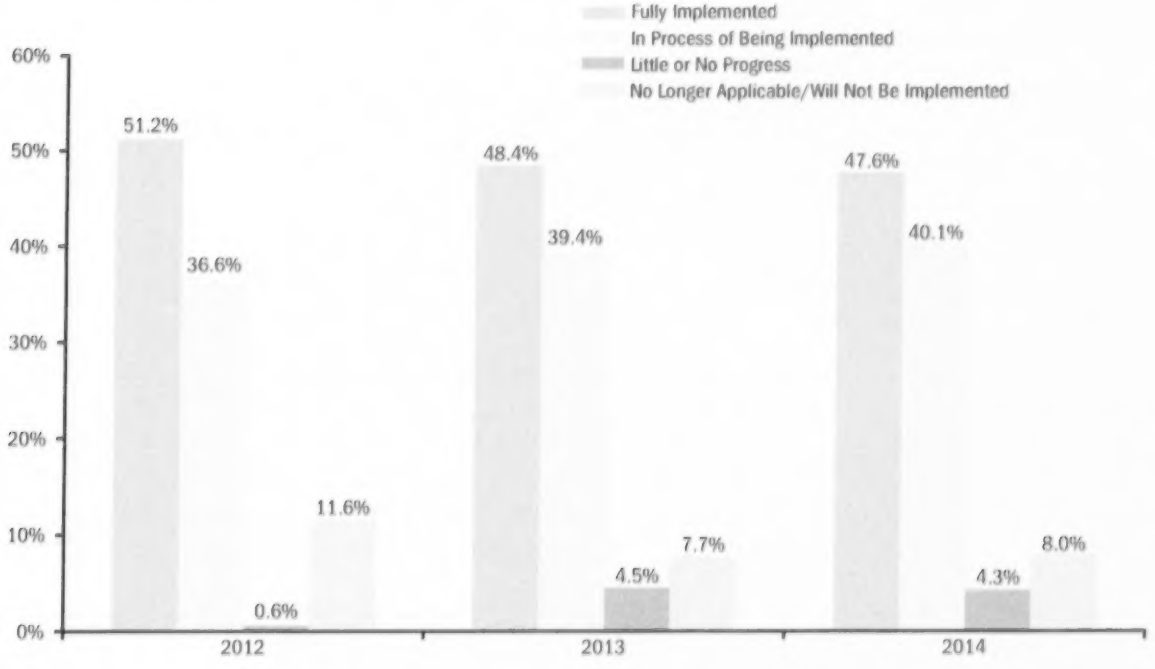
Figure 1 provides a detailed breakdown by year of the status of recommended actions in our 2012, 2013 and 2014 annual reports.

Of concern to us was that about half of the 170 recommended actions issued five years ago in our *2012 Annual Report*, and over half of the 158 issued four years ago in our *2013 Annual Report*, had not been implemented.

Many of the outstanding recommended actions addressed areas important to Ontarians, such as community safety, social services, health care and the protection of children. **Appendix 1** contains

Figure 1: Implementation Status of Recommended Actions Issued in Our *2012*, *2013* and *2014 Annual Reports*, as of March 31, 2017

Prepared by the Office of the Auditor General of Ontario



a sample of recommendations that we regard as important that have not been implemented.

For purposes of analysis, we classified outstanding recommended actions into what we believed were reasonable timeframes for ministries and agencies to implement: either two years (short-term) or five years (long-term).

We found that with respect to the short-term actions, 47% of the 60 recommended actions we issued in 2012, 38% of the 74 we issued in 2013, and 39% of the 215 we issued in 2014 were still outstanding.

3.2 Some Auditees Report Low Implementation Rates

Of the 38 ministries, Crown agencies and broader-public-sector agencies that we audited in 2012, 2013 and 2014, seven had fully implemented 75% or more of our recommended actions, as shown in **Figure 2**.

The remaining 31 had fully implemented fewer than 75% of our recommended actions, and eight of these had implemented fewer than 25%. Examples of specific recommended actions that had not yet been implemented that we believe are important include the following:

Ministry of Community Safety and Correctional Services

The Ministry had implemented 25 (54%) of the recommended actions, and 21 actions were outstanding of the 46 recommended in two audits between 2012 and 2014. The majority of the 21 outstanding actions relate to the Adult Community Corrections and Ontario Parole Board audit in our *2014 Annual Report*.

For example, one action still outstanding called on the Ministry to reduce reoffend rates of offenders serving sentences in the community by

Figure 2: Percentage of Recommended Actions Issued in Our *2012*, *2013* and *2014 Annual Reports* Fully Implemented, by Organization, as of March 31, 2017

Prepared by the Office of the Auditor General of Ontario

Ministry or Agency	Implementation Rate (%)
Organizations with More Than 31 Recommended Actions	
Ministry of Citizenship and Immigration	70
Ministry of Education	57
Hospitals (3)[1]	54
Ministry of Community Safety and Correctional Services	54
School Boards (6)[1]	36
Ministry of Community and Social Services	34
Ministry of Health and Long-Term Care	33
Ministry of Children and Youth Services	28
Organizations with 11–30 Recommended Actions	
Ontario Power Generation	100
Ministry of Finance	82
The Financial Services Commission of Ontario	72
Infrastructure Ontario	64
Ministry of the Environment and Climate Change	63
Ministry of Government and Consumer Services	62
Metrolinx	53
Universities (3)[1]	42
Ontario Energy Board	33
Ministry of Energy	20
Organizations with 1–10 Recommended Actions	
Community Care Access Centres (3)[1, 2]	100
Independent Electricity System Operator	100
Cancer Care Ontario	67
Ontario Parole Board	67
Ministry of the Attorney General	38
Ministry of Natural Resources and Forestry	22
Ministry of Advanced Education and Skills Development	0
Ministry of Infrastructure	0
Ministry of the Status of Women	0

Implementation rate of 75% or more

Implementation rate between 50% and 74%

Implementation rate of less than 50%

1. Implementation rates of individual broader-public-sector entities:
   - Hospitals: Providence Healthcare, 64%; Hamilton Health Sciences, 57%; Ottawa Hospital, 38%
   - School Boards: Algoma, 89%; Lakehead, 67%; Hamilton-Wentworth, 30%; Kawartha Pine Ridge, 13%; York Catholic, 10%; Trillium Lakelands, 10%
   - Universities: University of Ontario Institute of Technology, 63%; University of Toronto, 33%; Brock University, 29%
   - Community Care Access Centres: Central East, 100%; Northeast, 100%; Waterloo Wellington, 100%
2. Now referred to as Local Health Integration Networks.

strategically targeting resources, programs and services to higher-risk offenders.

Another recommended that the Ministry compare its expenditures and program outcomes for supervising and rehabilitating offenders with other jurisdictions to assess whether its programs deliver services cost-effectively.

Ministry of Community and Social Services

The Ministry had implemented 16 (34%) of the recommended actions, and 31 of 47 recommended actions were outstanding from audits in 2013 and 2014, with most arising from the audit of residential services for people with developmental disabilities in our *2014 Annual Report*.

Some of the outstanding recommendations address access to and quality of care; one, for example, recommended that the Ministry develop a consistent access prioritization process across the province to ensure services are administered consistently and equitably.

Another recommended that the Ministry ensure that wait-time information is consistently recorded to improve the management of wait times for residential services for people with development disabilities.

A third recommended action still outstanding was that the Ministry should ensure that all residential staff who provide direct care to residents undergo regular vulnerable-sector screenings and Canadian Police Information Centre checks.

Ministry of Health and Long-Term Care

We provided 112 recommended actions in nine audits between 2012 and 2014, but although many actions are in the process of being implemented, only 37 of them have been fully implemented. Among the actions still outstanding:

Palliative Care—All 21 recommended actions we issued in 2014 were still in the process of being implemented, including two related to the care provided to patients at home. These include one recommending the Ministry review the distribution of nurse practitioners in order to be better able to provide patients with access to palliative care at home; and another that it consider options for promoting the provision of palliative care, such as creating additional palliative care teams to support family physicians who deliver home-based palliative care.

Immunization—The Ministry still had not reviewed the immunization program's delivery structure, or considered alternative delivery options, to improve efficiency and cost-effectiveness, as we recommended in our *2014 Annual Report*.

Ministry of Children and Youth Services

The Ministry implemented only 11 of 39 recommended actions in our 2012 and 2013 annual reports. Areas of concern included:

Youth Justice Services Program—One recommended action in our *2012 Annual Report* would have required the Ministry to ensure that case-management plans include specific goals, along with recommended programs and services, to address concerns about youth at high risk.

Autism Services and Supports for Children—Some recommendations made in 2013 addressed access to care, such as the Ministry ensuring that clear eligibility, continuation and discharge criteria for Intensive Behaviour Intervention services are developed and applied consistently, and that the Ministry also ensure that it applies program guidelines consistently to all those who meet the eligibility criteria.

3.3 Certain Types of Recommendations Appear to Take Longer to Implement Than Others

We categorized the recommended actions we issued in 2012, 2013 and 2014 by the areas they addressed.

A considerable number of our recommended actions related to effectiveness/cost-effectiveness and monitoring and oversight improvements. There are opportunities for services delivered to better

achieve value for money. As well, better monitoring and oversight are needed to ensure that value for money is being achieved when services are provided by ministries, agencies and third parties.

As **Figure 3** illustrates, the categories with the highest implementation rates were those dealing with human resources, efficiency, internal controls and compliance.

The categories that had the lowest implementation rates addressed public reporting, access to care or services, effectiveness or cost-effectiveness, and education/promotion.

3.4 Some Recommendations Will Not Be Implemented

Of the 622 total recommended actions that we issued in 2012, 2013 and 2014, 55 either are no longer applicable or will not be implemented by the relevant organizations.

In 24 cases, we agreed with the auditees' rationale for choosing not to implement. In most cases, the main reason was that upcoming legislative or program changes make the recommendations no longer applicable. In other cases, the entity used an alternative approach to deal with the identified issue rather than implement the specific action in our recommendation.

We continue to believe that the remaining 31 recommended actions that we list in **Appendix 2** should be implemented. Over half of these recommended better monitoring/oversight, or addressed the effectiveness or cost-effectiveness of programs or services.

3.5 Improvement in Two-Year Implementation Rate of Value-for-Money Recommended Actions

Two years after a value-for-money audit is issued, our Office conducts a follow-up audit

Figure 3: Implementation Rate by Category of Actions Recommended in Our *2012*, *2013* and *2014 Annual Report*, as of March 31, 2017

Prepared by the Office of the Auditor General of Ontario

Category	Total # Relevant Recommended Actions (A)	# of Recommended Actions Fully Implemented (B)	Recommended Actions Fully Implemented/Total Recommended Actions (%)
Human Resources	8	7	88
Efficiency	10	8	80
Internal Controls	24	17	71
Compliance	46	31	67
Collect/Analyze Data	20	12	60
Enforcement	15	9	60
IT	11	6	55
Monitoring and/or Oversight	109	60	55
Quality of Care or Services	44	22	50
Economy/Funding/Costs	67	33	50
Governance	31	14	45
Education/Promotion	30	13	43
Effectiveness or Cost-effectiveness	124	50	41
Access to Care/Services	56	21	38
Public Reporting	4	1	25

on the progress made by ministries and broader-public-sector agencies in implementing our recommendations. The two-year average implementation rate of ministries and broader-public-sector agencies has been steadily increasing. That is, the implementation rate at the time of our two-year follow-ups has trended upward: 20% in 2012, 29% in 2013, and 40% in 2014.

4.0 Follow-Up on Recommendations Issued by the Standing Committee on Public Accounts in 2015 and Early 2016

Starting in 2015, our Office began assisting the Standing Committee on Public Accounts (Committee) in following up on the status of its recommended actions to auditees. The Committee issued 115 recommended actions in 2015 and up to April 2016.

Auditees have fully implemented about 65% of the recommended actions issued by the Committee over that time. The remaining 35% are either in various phases of implementation, or the entity determined that the recommended action will not be implemented (as discussed in **Section 4.2**).

Figure 4 provides a breakdown of the status of the actions recommended by the Committee from March 2015 up to April 2016.

4.1 Some Entities Better Than Others at Implementing Committee Recommendations

Figure 5 shows that of the 15 ministries/agencies that were the subject of Committee reports tabled in 2015 and up to April 2016, seven had fully implemented 70% or more of the Committee's recommended actions. Specifically, the15 ministries/agencies were the subject of the following 10 Committee reports:

- Violence Against Women
- Ontario Power Generation Human Resources
- Health Human Resources

Figure 4: Implementation Status of Recommended Actions Issued by the Standing Committee on Public Accounts between March 2015 and April 2016, as of March 31, 2017

Prepared by the Office of the Auditor General of Ontario

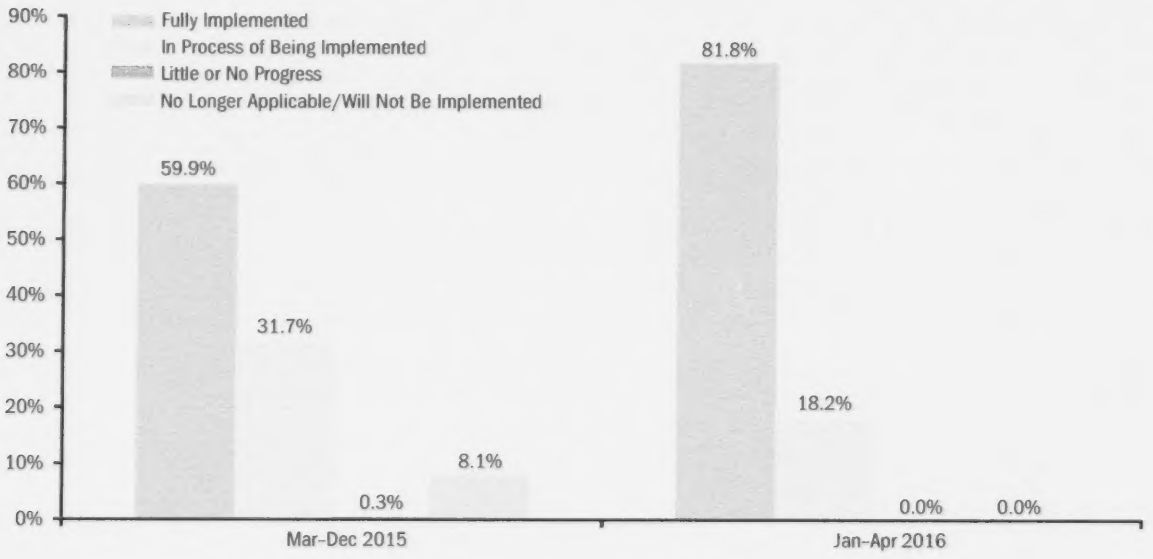


Figure 5: Percentage of Actions Recommended by the Standing Committee on Public Accounts between March 2015 and April 2016 Fully Implemented, by Organization, as of March 31, 2017

Prepared by the Office of the Auditor General of Ontario

Ministry or Agency	# of Recommended Actions (A)	# of Recommended Actions Fully Implemented (B)	Implementation Rate (B/A) (%)
Ministry of Infrastructure	2	2	100
Ontario Power Generation	17	17	100
Cancer Care Ontario	10	9	90
Ministry of Energy	9	8	89
Ministry of Education	6	5	83
Treasury Board Secretariat	5	4	80
Infrastructure Ontario	10	7	70
Financial Services Commission of Ontario	18	10	56
Ministry of Advanced Education and Skills Development	2	1	50
Ministry of Health and Long-Term Care	14	6	43
Universities (3)*	12	4	33
Ministry of Community and Social Services	11	2	18
Ministry of the Status of Women	3	0	0

Implementation rate of 75% or more

Implementation rate between 50% and 74%

Implementation rate of less than 50%

* Implementation rates of individual universities:
- University of Ontario Insitute of Technology, 50%
- University of Toronto, 25%
- Brock University, 25%

- Cancer Screening Programs
- Pension Plan and Financial Services
- Alternative Financing and Procurement
- Smart Metering Initiative
- University Undergraduate Teaching Quality
- Education of Aboriginal Students
- Public Accounts of the Province

The Ministry of Infrastructure and Ontario Power Generation implemented all outstanding recommendations. The remaining eight entities had fully implemented fewer than 70% of the Committee's recommended actions; this included two ministries that had implemented fewer than 25%.

4.2 Some Committee Recommendations Will Not Be Implemented

Of the 115 recommended actions that the Committee issued, 10 either will not be implemented by the entities concerned, or are no longer applicable.

We agreed with the entities' rationale for five of the recommended actions that will not be implemented. The main reason they gave was that proposed legislative changes make the recommendations no longer applicable.

However, we continue to believe that the five remaining actions listed in **Appendix 3** should be implemented. These five generally required the entity to assess the quality of services provided, or to disclose more information to the public.

Appendix 1: Examples of Recommended Actions from 2012 to 2013 That Have Not Been Implemented

Prepared by the Office of the Auditor General of Ontario

Audit Year	Report Section	Ministry/ Agency	Rec. #	Recommended Action	Category of Recommended Action
2012	3.01 Cancer Screening Programs	Cancer Care Ontario	5	To ensure that Ontarians are receiving quality cancer screening services, Cancer Care Ontario should work with the Ministry to obtain screening data so it can review and assess the work performed by all service providers and measure the results against appropriate quality assurance standards.	Quality of care/ services
2012	3.03 Diabetes Management Strategy	Ministry of Health and Long-Term Care	5	To ensure that people receive adequate, timely and quality bariatric surgical services across the province, the Ministry of Health and Long-Term Care should consider providing the public with information on the average elapsed time between a physician's referral and completion of the required pre-surgery assessments.	Access to care/ services
2012	3.05 Education of Aboriginal Students	Ministry of Education	3	To help assess the progress being made toward achieving the goals and performance measures outlined in the Ontario First Nation, Métis and Inuit Education Policy Framework, the Ministry of Education and school boards should periodically review progress made with regard to closing the gap between Aboriginal and non-Aboriginal student achievement so that additional or alternative strategies can be implemented where necessary.	Effectiveness/ cost-effectiveness
2012	3.08 Long-term-care Home Placement Process	Ministry of Health and Long-Term Care	3	To better ensure that clients have sufficient information on the long-term-care (LTC) home placement process and wait times for LTC home admission, the Ministry of Health and Long-Term Care, in conjunction with the Local Health Integration Networks (formerly conducted by Community Care Access Centres), should provide the public with detailed information on the LTC home admission process and the policies in place to ensure the process is administered equitably.	Education/ promotion
2012	3.12 University Undergraduate Teaching Quality	Ministry of Advanced Education and Skills Development	1	To help ensure that administrators and students have sufficient information to make informed decisions, and that all faculty members receive the necessary feedback to maintain or enhance teaching quality, universities should ensure that faculty, including sessional faculty, periodically receive constructive feedback on their teaching effectiveness, and encourage faculty to undertake any necessary professional development.	Effectiveness/ cost-effectiveness
2013	3.03 Healthy Schools Strategy	Ministry of Education	1	To help ensure that offering healthier food choices in schools contributes to improved student eating behaviours and their goals of improving student health and academic achievement, the Ministry of Education and school boards should develop consistent and effective strategies to monitor compliance with the Ministry's School Food and Beverage Policy, especially ensuring that all items sold in schools comply with the policy's nutrition standards.	Monitoring/ oversight

Audit Year	Report Section	Ministry/ Agency	Rec. #	Recommended Action	Category of Recommended Action
2013	3.03 Healthy Schools Strategy	Ministry of Education	2	To help safely increase physical activity as well as contribute to reduced sedentary behaviour and improved academic achievement, the Ministry of Education and school boards should set specific goals and targets for increasing physical activity in schools, and periodically monitor, measure and publicly report on the progress made.	Effectiveness/ cost-effectiveness
2013	3.06 Private Schools	Ministry of Education	3	To ensure that adequate policies and procedures are in place to verify that credit-granting private schools are awarding course credits and diplomas in compliance with ministry policies, including the provincial grade 9 to 12 curriculum, the Ministry of Education should establish effective procedures to identify, track and take timely corrective action against private schools that are repeatedly non-compliant with ministry policies.	Enforcement
2013	3.08 Rehabilitation Services at Hospitals	Ministry of Health and Long-Term Care	1	To better ensure that Ontarians requiring rehabilitation have equitable access to services, the Ministry of Health and Long-term Care should work with the Local Health Integration Networks to establish a province-wide co-ordinated system for rehabilitation, including both regular (shorter-term) and restorative (longer-term) inpatient services and all community-based outpatient services.	Access to care/ services
2013	3.10 Violence Against Women	Ministry of the Status of Women	1	To assess whether the province's Domestic Violence Action Plan and Sexual Violence Action Plan have reduced domestic and sexual violence and improved supports for women who have experienced violence and their children, the Ministry of Status of Women (formerly referred to as Ontario Women's Directorate) should ensure that the commitments contained within the action plans have measurable goals or targets attached to them and that progress is regularly assessed and reported.	Effectiveness/ cost-effectiveness

Appendix 2: Recommendations from 2012, 2013 and 2014 Assessed as "Will Not Be Implemented" That the Auditor General Believes Should Be Implemented

Prepared by the Office of the Auditor General of Ontario

Section	Organization	Recommendations	Status	Rationale
2012				
3.02: Criminal Prosecutions	Ministry of the Attorney General	**Recommendation 3–Action 1** To ensure that Crown attorneys have the workload flexibility to devote a similar amount of time to charges of a similar nature, the Criminal Law Division should establish benchmarks for what a reasonable workload for each Crown attorney should be.	Assessed in 2017 as Will Not Be Implemented	Criminal Law Division relies on comparison data and not specific benchmarks. As a result, this recommendation will not be implemented.
3.05: Education of Aboriginal Students	Ministry of Education	**Recommendation 3–Action 1** To help assess the progress being made toward achieving the goals and performance measures outlined in the Ontario First Nation, Métis and Inuit Education Policy Framework, the Ministry of Education (Ministry) and school boards should establish a baseline with respect to the goals and performance measures identified in the Framework and set measurable, realistic targets.	Assessed in 2017 as Will Not Be Implemented	The Ministry created baselines and performance targets for three out of the 10 performance measures identified in the Ontario First Nation, Métis and Inuit Education Policy Framework, 2007. The ministry does not have targets or baselines associated with the remaining seven qualitative performance measures. The Ministry uses survey, engagement and program data to assess progress on the qualitative performance measures. Results are publicly reported every three years.
	Kawartha Pine Ridge District School Board	**Recommendation 5–Action 1** In order to improve educational outcomes for First Nation students living on reserves, the Ministry of Education and, where applicable, school boards, should develop standardized template tuition agreements and guidelines that can be used by all boards and periodically monitor whether valid tuition agreements are in place with all bands.	Assessed in 2017 as Will Not Be Implemented	Kawartha Pine Ridge District School Board stated that the School Board does not use standardized template tuition agreements because it negotiates contracts, which are mutually agreed upon by the board and each of the three First Nations Territories.
3.06: Independent Health Facilities	Ministry of Health and Long-Term Care	**Recommendation 3–Action 3** To better ensure that independent health facilities are providing services according to quality medical standards established by the College of Physicians and Surgeons of Ontario (College) and are meeting other legislated requirements, the Ministry should consider including additional expectations in its Memorandum of Understanding with the College, such as requiring that assessment results for facilities with significant issues be more promptly reported to the Ministry after the assessment.	Assessed in 2017 as Will Not Be Implemented	The Ministry has not implemented a deadline. The Ministry indicated that each assessment is unique, and each assessment varies from others. Therefore a deadline is both impractical and may lead to haste that could compromise the thoroughness, comprehensiveness and completeness needed to provide robust and valid report findings and recommendations. The Ministry noted that within the overall assessment timeline, sub-processes are monitored and followed up on to ensure timely responses.

Section	Organization	Recommendations	Status	Rationale
3.10: Ontario Provincial Police	Ministry of Community Safety and Correctional Services	**Recommendation 4—Action 2** To help ensure that non-policing duties and responsibilities are handled as cost-effectively as possible, the Ontario Provincial Police should establish cost-saving targets and timelines for designating positions to either civilians or officers, depending on the duties of the position.	Assessed in 2017 as Will Not Be Implemented	The OPP noted that it will not be establishing cost savings targets and timelines for designating positions to either civilians or officers, depending on the duties of the position, primarily due to HR policy complexities.
		Recommendation 4—Action 3 To help ensure that non-policing duties and responsibilities are handled as cost-effectively as possible, the Ontario Provincial Police should reassign officers who are currently in civilian positions back to front-line policing where possible.	Assessed in 2014 as Will Not Be Implemented	The OPP advised us that the positions are reviewed as they become vacant. In some cases, these positions are held by accommodated officers who might never return to front-line duties. Accommodated members must get medical clearance before returning to front-line duties.
		Recommendation 10—Action 2 To help ensure that police resources are focused on the Ontario Provincial Police's key objectives for effective policing, the Ontario Provincial Police should monitor average officer response times to calls for service for each detachment to ensure that adequate response times are achieved, particularly for higher-priority calls and during peak demand periods.	Assessed in 2014 as Will Not Be Implemented	We were advised that the OPP continues to believe that monitoring response times and possibly establishing targets is problematic, due to significant geographic differences among detachment areas across the province. In addition, the OPP noted that monitoring response times is not a current function of its computer-aided dispatch system.
		Recommendation 11—Action 1 To help ensure that its two key information systems contain accurate information that can be reliably used for managing and reporting on its policing activities and on crime and traffic occurrences, the Ontario Provincial Police should assess the extent to which the Records Management System and Daily Activity Reporting systems do not reconcile with each other for critical data such as occurrences and calls for services.	Assessed in 2014 as Will Not Be Implemented	In 2014, the OPP had neither addressed the differences we identified in our 2012 audit report nor put in place plans to reconcile the information between the two databases. As a result, the OPP has increased its risk with respect to the accuracy and reliability of its published information, and the usefulness of its activity-based information for decision-making.
		Recommendation 11—Action 2 To help ensure that its two key information systems contain accurate information that can be reliably used for managing and reporting on its policing activities and on crime and traffic occurrences, the Ontario Provincial Police should consider whether periodic supervisory approval of officers' daily or weekly data input would help minimize inconsistent and inaccurate data between the two systems.	Assessed in 2014 as Will Not Be Implemented	The OPP advised us that it had decided not to establish a new requirement that supervisors periodically approve officers' daily or weekly data input, to ensure greater accuracy, since it would be a time-consuming process for supervisory resources that are already fully tasked. The OPP plans to continue its practice of requiring supervisor approval when officers record overtime hours and to ensure weekly that officers have updated the DAR, but they do not check or approve the officer's data entries. The OPP noted that it recently expanded the use of civilian staff to enter data for officers into the RMS and this should result in improved data entry because the civilian staff is directly supervised.

Section	Organization	Recommendations	Status	Rationale
3.12: University Undergraduate Teaching Quality	University of Toronto	**Recommendation 1–Action 4** To help ensure that administrators and students have sufficient information to make informed decisions, and that all faculty members receive the necessary feedback to maintain or enhance teaching quality, universities should ensure that faculty, including sessional faculty, periodically receive constructive feedback on their teaching effectiveness, and encourage faculty to undertake any necessary professional development.	Assessed in 2017 as Will Not Be Implemented	The University indicated that it has no immediate plans to make the annual performance review mandatory for all sessional instructors.
	University of Ontario Institute of Technology	**Recommendation 1–Action 3** To help ensure that administrators and students have sufficient information to make informed decisions, and that all faculty members receive the necessary feedback to maintain or enhance teaching quality, universities should provide students with the summarized results of student course evaluations to assist them in making informed decisions on course selection.	Assessed in 2017 as Will Not Be Implemented	The University stated that it will not be posting course evaluations. The University indicated that other actions have been taken to support student decision-making in course selection, including implementation of a new calendar to allow students to access course and program information from any device and to see relevant information and course information that is important to their study.
2013				
3.06: Private Schools	Ministry of Education	**Recommendation 1–Action 3** To help ensure that private school students receive satisfactory instruction in a safe and healthy environment and to ensure compliance with ministry policy and legislation, the Ministry of Education (Ministry) should revalidate private schools annually or on a cyclical basis to ensure that information provided is correct and to revoke the authority to operate for those schools that do not meet the definition of and general requirements of a private school.	Assessed in 2015 as Will Not Be Implemented	The Ministry stated that it is not considering implementing our recommendation to revalidate all private schools as its focus is on inspections of credit-granting private schools. For private elementary and non-credit-granting secondary schools, the Ministry will continue to rely on the self-reporting by these schools.
		Recommendation 1–Action 4 To help ensure that private school students receive satisfactory instruction in a safe and healthy environment and to ensure compliance with ministry policy and legislation, the Ministry of Education (Ministry) should provide education officers with access to the Ontario School Information System to, for example, reconcile and validate enrolment.	Assessed in 2015 as Will Not Be Implemented for non-credit-granting schools	The Ministry indicated it has no plan to reconcile and validate information submitted by non-credit-granting schools because its focus is on ensuring credit-granting schools are meeting ministry requirements.
		Recommendation 1–Action 5 To help ensure that private school students receive satisfactory instruction in a safe and healthy environment and to ensure compliance with ministry policy and legislation, the Ministry of Education (Ministry) should identify all private school locations and verify that all locations comply with ministry policy and legislation.	Assessed in 2015 as Will Not Be Implemented for non-credit-granting schools	The Ministry continues to allow the 93 additional locations identified by non-credit-granting schools to operate under the Notice of Intention to Operate a Private School for their main sites. The Ministry has no plan to validate or inspect any of these additional locations.

Section	Organization	Recommendations	Status	Rationale
		Recommendation 4—Action 3 To help ensure that sufficient information is submitted to enable effective oversight of the private school sector and compliance with legislation and related policies, the Ministry of Education (Ministry) should analyze data received to highlight potential concerns and to determine if private school students are progressing appropriately.	Assessed in 2015 as Will Not Be Implemented for non-credit-granting schools	For non-credit-granting schools, the Ministry does not analyze this data to highlight potential concerns at these schools as it continues to focus only on credit-granting schools.
		Recommendation 5—Action 1 To help ensure that Ontario secondary school diplomas and Ontario scholar certificates are issued only when they are earned and that adequate controls are in place over their distribution, the Ministry of Education (Ministry) should reconcile the number of diplomas and certificates requested to the number of graduating students reported at each private school, and investigate any unreasonable discrepancies.	Assessed in 2015 as Will Not Be Implemented for Ontario scholar certificates	Some private schools requested scholar certificates equal to the number of diplomas, suggesting that all of their graduates would achieve an 80% average. The Ministry planned to continue issuing certificates equal to the total number of diplomas issued. And inspectors would verify whether these certificates were awarded to students who have obtained at least an 80% average.
		Recommendation 7—Action 1 To help ensure that private school students receive satisfactory instruction and are provided with the opportunity to realize their potential and develop into highly skilled, knowledgeable citizens, the Ministry of Education (Ministry) should consider options to increase private school participation in standardized testing.	Assessed in 2015 as Will Not Be Implemented	Currently, the Ministry is not considering options to increase private school participation in future standardized testing since changes to legislative authority would be needed to require private schools to participate.
		Recommendation 7—Action 2 To help ensure that private school students receive satisfactory instruction and are provided with the opportunity to realize their potential and develop into highly skilled, knowledgeable citizens, the Ministry of Education (Ministry) should analyze test results for private school students and follow-up on any outcomes that suggest these students are not receiving a quality education.	Assessed in 2015 as Will Not Be Implemented for Grade 3, 6 and 9 EQAO assessment results	The Ministry will not be analyzing Grade 3, 6 and 9 EQAO assessments, as not all private schools participate in these tests and no inspections are undertaken for the private elementary and non-credit-granting secondary schools.
3.08: Rehabilitation Services and Hospitals	Providence Healthcare	**Recommendation 2—Action 5** To better ensure that inpatient rehabilitation meets patients' needs as efficiently and equitably as possible, hospitals should track and monitor information on the time it takes to fill a bed after a patient is discharged.	Assessed in 2015 as Will Not Be Implemented	The hospital indicated that its turnaround time is less than two hours due to advance planning of admissions and discharges taking place on the same day. Therefore, it was not necessary to track the time it takes to fill a bed after a patient is discharged.
	The Ottawa Hospital			The hospital indicated that because it plans in advance when patients are admitted and discharged, its turnaround time is less than a day. Therefore, it said it would not be implementing this recommendation.
		Recommendation 3—Action 2 To better ensure that patients have timely access to required outpatient services, hospitals should assess the need for, and the costs and benefits of, providing evening and weekend services.	Assessed in 2017 as Will Not Be Implemented	According to the hospital, there is inadequate funding to support evening and weekend hours. Therefore, this recommendation will not be implemented.

Section	Organization	Recommendations	Status	Rationale
3.09: Service Ontario	Ministry of Government and Consumer Services	**Recommendation 1–Action 2** To help further reduce service delivery costs, ServiceOntario should examine possible changes it could make, including to its pricing strategy, to promote greater use of online transactions.	Assessed in 2015 as Will Not Be Implemented	ServiceOntario informed us that a differential fee structure will not be explored because changes to prices for services require a minister's order and Treasury Board approval. ServiceOntario also indicated that it has made such requests in the past, though not recently, and they were not approved.
		Recommendation 4–Action 1 To improve service and security surrounding the issuing and management of licences, certificates, registrations, and permits that it administers, ServiceOntario should ensure that it completes enough guarantor audits for birth certificate applications.	Assessed in 2015 as Will Not Be Implemented	In 2014, ServiceOntario completed an analysis of the effectiveness of guarantor audits for birth certificate applications and determined that the random audit of guarantors did not add value to the existing application screening process for verifying the eligibility of applicants. ServiceOntario indicated that the existing guarantor audit process is only used to verify the credentials of the guarantor, not to verify that the applicant is entitled to a birth certificate or that the information provided about the applicant is correct. The audit process was therefore eliminated in August 2014.
		Recommendation 6–Action 2 ServiceOntario should also periodically test its copy of the land registry program software.	Assessed in 2015 as Will Not Be Implemented	ServiceOntario has decided not to periodically independently test the source code because the cost is too high. Instead, it will rely on annual audits by an external auditor to continue to validate that Teranet's operating controls over electronic land registration services are effective.
3.10: Violence Against Women	Ministry of Community and Social Services	**Recommendation 2–Action 1** To help ensure that the services provided by transfer payment agencies to abused women and their children are of an acceptable and reasonably consistent quality standard, the Ministry of Community and Social Services should establish acceptable quality standards for shelter services, particularly with regard to minimum staffing levels.	Assessed in 2017 as Will Not Be Implemented	The Ministry stated that it will not implement minimum staffing levels. The Ministry noted that, at the day-to-day operational level, agencies are in the best position to determine staffing configurations and levels that are cost-effective and meet or exceed expectations in delivering services to women in need. Each shelter develops its own operational procedures for appropriate staffing levels according to its specific resources, needs of residents and staff, programs delivered, and priorities and is required to report staffing and salary costs.
		Recommendation 5–Action 1 To better ensure that the service needs of abused women and their children are met, the Ministry of Community and Social Services should require agencies to maintain wait-list information for their services.	Assessed in 2017 as Will Not Be Implemented	The Ministry consulted with the Violence Against Women (VAW) Stakeholder Advisory Group on the feasibility of collecting additional information on wait lists for all VAW agencies and programs, as well as any methodologies they may already use to collect this information. The VAW Stakeholder Advisory Group emphasized that there are many challenges to maintain wait lists and that VAW agencies need the flexibility to determine how best to meet the needs of their clients given the resources available to them. Wait lists may also not be relevant to all types of VAW services. As a result of these consultations, the Ministry does not have plans to collect wait list data in addition to the information already being collected in the Transfer Payment Budget Package and the VAW Client Satisfaction survey.

Section	Organization	Recommendations	Status	Rationale
2014				
3.02: Child Care Program (Licensed Daycare)	Ministry of Education	**Recommendation 3–Action 2** To ensure that child care operators are inspected in a timely manner to verify that they maintain compliance with legislative requirements and deliver services to children in a healthy, safe environment, the Ministry of Education should identify high-risk operators and develop a risk-based approach for determining how often these and other child care operators should be inspected.	Assessed in 2016 as Will Not Be Implemented for home child care agencies	The Ministry is not implementing the tiered system for licensed home child care agencies. It inspects these agencies annually and relies on the agencies to inspect the home child care premises they oversee at least once every quarter, as required by legislation.
		Recommendation 3–Action 4 To ensure that child care operators are inspected in a timely manner to verify that they maintain compliance with legislative requirements and deliver services to children in a healthy, safe environment, the Ministry of Education should schedule visits in a way that minimizes timing predictability.	Assessed in 2016 as Will Not Be Implemented for home child care agencies	Licence renewal inspections for existing operators continue to be performed only after the operator has submitted a licence renewal form because, the Ministry said, it prefers to conduct inspections only if it knows the operator will continue to deliver the service. Tiered licensing will not be implemented for child care centres that have been operating for less than three years and for licensed home child care agencies.
		Recommendation 7–Action 1 To help ensure the delivery of a high-quality, accessible and co-ordinated child care system in Ontario that encourages child cognitive, language and social development, the Ministry of Education should re-evaluate the education requirement for program advisors on a go-forward basis to consider their education level and experience with child care operations.	Assessed in 2017 as Will Not Be Implemented	The Ministry indicated that the education requirement for program advisors was re-evaluated in 2016; however, the Ministry did not provide a copy of the re-evaluation analysis and final Ministry recommendations. The Ministry noted that there is ongoing training and operational support for licensing staff, and performance assessments to ensure that program advisors effectively perform their job responsibilities. In addition, the Ministry noted that ECE designated senior program advisors provide oversight and training of program advisors. There are no plans to conduct a further evaluation.
		Recommendation 9–Action 6 To help reduce the risk to the health and safety of children at child care facilities and to appropriately address, report and analyze serious incidents, the Ministry of Education should consider posting serious occurrences online where parents can readily access them.	Assessed in 2016 as Will Not Be Implemented	The Ministry decided it would not implement this recommendation. It told us that the posting of serious occurrences online would require in-depth consultations with its stakeholders and legal counsel, and may not provide good information to parents because it does not include follow-up information. It also told us that it may create a disincentive for operators to report serious occurrences.
3.03: Pension Plan and Financial Service Regulatory Oversight	The Financial Services Commission of Ontario	**Recommendation 5–Action 4** To ensure that pension plan members get more detailed disclosures about their pensions, and about the regulatory oversight performance of the Financial Services Commission of Ontario (FSCO), the FSCO should assess how well their plan performed and was administered in comparison to other plans.	Assessed in 2016 as Will Not Be Implemented	In our 2014 audit, we found that although the FSCO published annual data about the size and number of pension plans in Ontario, as well as the overall solvency position of defined-benefit plans, it did not publish detailed information on individual plans. The FSCO said it did not intend to publish information about individual pension plans to preserve confidentiality. Plan members can compare their plan's performance against others in Ontario as a whole using information that is already public.

Section	Organization	Recommendations	Status	Rationale
3.04: Immunization	Ministry of Health and Long-Term Care	**Recommendation 9–Action 2** To help prevent health-care providers from administering a duplicate influenza vaccine to people who have already been vaccinated and to identify erroneous duplicate billings, the Ministry should review and revise its claims payment systems to reject billings from health-care providers for patients who have already received their influenza vaccine.	Assessed in 2016 as Will Not Be Implemented	In May 2015, the Ministry implemented changes to its billing system, which now disallows payments for flu vaccinations outside of the flu season (September to May), and payments for a third immunization for the same person within a flu season. The Ministry indicated that payments for duplicate immunizations continue to be allowed since some patients, such as those with a compromised immune system, may require two doses within one season. We noted in our 2014 audit that only a minority of patients legitimately require two vaccine shots to create immunity against the flu. However, the Ministry does not intend to revise its claim system to reject duplicate payments because the Ministry has concluded that duplicate physician billings for the flu vaccine occur too infrequently to warrant such measures.
		Recommendation 9–Action 3 To help prevent health-care providers from administering a duplicate influenza vaccine to people who have already been vaccinated and to identify erroneous duplicate billings, the Ministry should periodically compare payments made to physicians for administering the influenza vaccine to those made to pharmacists, and follow up on duplicate payments made for the same patient.	Assessed in 2017 as Will Not Be Implemented	It is the Ministry's position that the incidence of duplicate billing is very low, and the financial impact is minimal. The Ministry will compare the data for future influenza seasons to detect any duplicate billings. The Ministry will not implement the recommendation as worded.
3.05: Alternative Financing and Procurement	Infrastructure Ontario	**Recommendation 3–Action 1** Infrastructure Ontario should ensure that all proposed changes to its VFM assessment methodology, including its plan to increase the base cost on the public-sector comparator side by up to 13.3% to reflect value-added innovations that the private sector may be bringing to projects, can be and are fully supported and can sustain scrutiny.	Assessed in 2017 as Will Not Be Implemented	According to Infrastructure Ontario, it continues to incorporate the innovation adjustment in all projects and believes that changes made within its value-for-money methodology are supported. In our *2016 Annual Report*, our Office questioned the assumptions made to arrive at the innovation adjustment. Infrastructure Ontario stated that it will not be undertaking any future work with regard to this recommendation.
3.09: Provincial Nominee Program	Ministry of Citizenship and Immigration	**Recommendation 3–Action 5** To ensure that only qualified individuals are nominated and to detect misrepresentation, the Ministry of Citizenship, Immigration and International Trade should assign nominee applications from the same employer to the same processing staff.	Assessed in 2016 as Will Not Be Implemented	The Ministry informed us that it cannot always assign nominee applications from the same employer to the same processing staff because of staff turnover and workload management.
		Recommendation 7–Action 4 To ensure that all investment component applications are consistently assessed on how well they achieve program objectives, the Ministry of Citizenship, Immigration and International Trade should explore advertising Program criteria in media that reach ethnic groups that commonly use the Program, and monitor such media for questionable advertisements relating to the Program.	Assessed in 2016 as Will Not Be Implemented	The Ministry had not explored advertising Program criteria in media that reach ethnic groups. Instead, the Ministry contracts a media monitoring firm to provide summaries of news stories in Ontario that are related to the Program, including those targeting ethnic groups and in languages other than English and French. The Ministry indicated that it ensures that its website contains current Program information, but that it would be challenging to monitor advertisements in local ethnic media to ensure that Program information is accurately advertised to potential applicants.

Section	Organization	Recommendations	Status	Rationale
3.10: Residential Services for People with Developmental Disabilities	Ministry of Community and Social Services	**Recommendation 7–Action 1** To help ensure the well-being of people with developmental disabilities living in Ministry-funded residences, the Ministry of Community and Social Services should establish further standard-of-care benchmarks, such as staff-to-resident ratios and the minimum number of times a year that each resident should be seen by health professionals such as physicians and dentists.	Assessed in 2016 as Will Not Be Implemented	The Ministry stated that people with developmental disabilities have a wide range of needs–some need minimal support (e.g., for learning how to take public transportation independently or addressing personal issues as they arise) and others need intensive support (e.g., 24/7 support with all aspects of daily living, and to manage challenging behaviours, such as self-harm). Therefore, it is difficult for the Ministry to accurately set a standard for staff-to-client ratios that is meaningful and appropriate for people who live in developmental services settings or participate in other Ministry-funded programs. The Ministry feels minimum standards are not needed because it already requires that funded service agencies develop an individual support plan for every person receiving services, and that these plans identify the community resources that may be required or accessed by the individual, including medical resources.
3.11: Smart Metering Initiative	Ministry of Energy	**Recommendation 1–Action 2** To ensure that any future major initiative in the electricity sector is implemented cost-effectively and achieves its intended purposes, the Ministry of Energy should review the role of the Ontario Energy Board as an independent regulator when ministerial directives that impact electricity rates are issued.	Assessed in 2016 as Will Not Be Implemented	The *Energy Statute Law Amendment Act, 2016*, proclaimed into force on July 1, 2016, changed the electricity planning process in Ontario. Under the new legislation, the Ministry is responsible for developing and updating Long-Term Energy Plans for Ontario while the Ontario Energy Board (OEB) is responsible for preparing an implementation plan when the Ministry requests it. The Ministry will not implement this recommendation because the new long-term energy planning process does not enable the OEB to review and approve the Ministry's plans as an independent regulator.

Section	Organization	Recommendations	Status	Rationale
		Recommendation 2—Action 3 To ensure that the combination of smart meters and time-of-use (TOU) pricing is effective in changing ratepayer electricity-usage patterns to reduce peak electricity demand and related infrastructure costs, and that ratepayers understand the impacts of TOU pricing on their electricity bills, the Ministry of Energy should work with the Ontario Energy Board and/or the distribution companies to disclose the components of the TOU rates (electricity market price and Global Adjustment) separately on electricity bills so that the impact of the Global Adjustment is transparent to ratepayers.	Assessed in 2016 as Will Not Be Implemented	The OEB has considered our recommendation, but decided not to implement it. The Global Adjustment is a component of the cost of electricity and is incorporated into the setting of TOU prices. The OEB does not believe a breakdown of TOU prices would clarify pricing for consumers but would be likely to create more confusion. It does not think that showing the Global Adjustment as a separate line item will help consumers make decisions about electricity consumption and how to manage their electricity costs. Instead, it believes consumers are focused on their TOU usage when making decisions about how to reduce their electricity costs. Instead of showing the Global Adjustment as a separate line item on the electricity bill, the Independent Electricity System Operator (IESO) publicly reports the Global Adjustment breakdown by business and consumer categories. It also indicated that it will conduct pilots to assess other changes to make the electricity bills easier to understand. The OEB has limited ability to mandate changes to the electricity bills of low-volume consumers because they are governed by Ontario regulations. The OEB noted that consumers have access to information regarding the cost of the Global Adjustment through the IESO's publicly available market price website. The OEB's Regulated Price Plan Reports also provide details on estimates of the Global Adjustment costs and how those costs are allocated to the three TOU periods.
		Recommendation 5—Action 1 To improve cost-efficiency of the distribution companies and reduce variations in distribution companies' costs, the Ministry of Energy, in conjunction with the Ontario Energy Board, should formally conduct a cost-benefit analysis into consolidating distribution companies as recommended by the Ontario Distribution Sector Review Panel.	Assessed in 2016 as Will Not Be Implemented	The Ministry advised us that although the government will not legislate or force consolidation within the distribution sector, it has created incentives for voluntary consolidation. In June 2015, the Ontario government announced a time-limited relief on taxes pertaining to transfers of electricity assets, such as transactions involving the merger or acquisition of distribution companies. Between January 1, 2016, and December 31, 2018, the provincial transfer tax rate of local distribution companies will be reduced from 33% to 22%, and distribution companies with fewer than 30,000 customers will be completely exempt from paying transfer taxes.

Note: Actions directed at a group of entities are divided by the number of entities involved, and are counted in fractions. Therefore, the number of actions in this appendix will be higher than the 31 noted in **Section 3.4**.

Appendix 3: Recommendations from 2015 by the Standing Committee on Public Accounts Assessed as "Will Not Be Implemented" That the Auditor General Believes Should Be Implemented

Prepared by the Office of the Auditor General of Ontario

Section	Organization	Recommendations	Status	Rationale
June: Pension Plan and Financial Service Regulatory Oversight	Financial Services Commission of Ontario (FSCO)	**Recommendation 3–Action 2** The FSCO complete analysis of ways to improve monitoring of the Pension Benefits Guarantee Fund, such as to incorporate expanded disclosure in the financial statements of the fund to better reflect plan exposure.	Assessed in 2017 as Will Not Be Implemented	According to the FSCO, it will not implement this recommended action because the current Pension Benefits Guarantee Fund financial statement disclosures satisfy the applicable accounting rules. The FSCO stated that the Pension Benefits Guarantee Fund financial statement disclosures were expanded in 2010 to include large potential claims for companies under Companies' Creditors Arrangement Act protection. The FSCO stated that, due to confidentiality of a pension plan's funded status, no further expansion of disclosures was considered to be appropriate. The FSCO conducted a comparative analysis of financial statement disclosures of the Fund to similar funds in the U.S. and U.K. However, the FSCO did not make any changes as a result of this review.
June: University Undergraduate Teaching Quality	University of Toronto	**Recommendation 2–Action 1** Universities conduct performance appraisals of sessional instructors.	Assessed in 2017 as Will Not Be Implemented	The University's collective agreement does not require sessional faculty members to receive annual performance evaluations. Sessional instructors who initiate the advancement track are subject to performance appraisals. The University noted that there are no immediate plans to make the annual performance review mandatory for all sessional instructors.
	Brock University		Assessed in 2016 as Will Not Be Implemented	The University informed us that it has no formal process in place to evaluate sessional instructors. Its collective agreement requires only faculty members holding tenured or tenure-track positions to undergo an annual performance appraisal. The University does not intend to implement mandatory performance appraisals of sessional instructors or include them in the next round of negotiations with its faculty union. It stated that the majority of its instructors are evaluated since its collective agreement limits the percentage of courses that can be taught by non-tenured or tenure-track faculty.
		Recommendation 3–Action 1 Examine the impact on teaching quality of the use of sessional instructors.	Assessed in 2016 as Will Not Be Implemented	The University has no plans to address this recommended action. It advised that the impact on teaching quality of the use of sessional instructors could be assessed by comparing student course evaluations of sessional instructors with those of full-time tenured faculty. However, the student course evaluations of full-time tenured faculty are the property of the instructor. The university therefore does not have access to those course evaluations.

Section	Organization	Recommendations	Status	Rationale
	University of Ontario Institute of Technology	**Recommendation 1–Action 1** Universities continue to take steps to make the results of course evaluations available to students to assist them in making their course selections.	Assessed in 2016 as Will Not Be Implemented	The University advised that this recommendation would not be implemented because almost 98% of courses have positive reviews, 40% of courses are offered only once per year, and only 20% of courses have more than one instructor. In addition, the University believes publication of student course evaluations would damage faculty relations while failing to improve teaching. In addition, changes in the availability of student evaluations would have to be negotiated with faculty unions.
November: Smart Metering Initiative	Ministry of Energy	**Recommendation 1–Action 1** The Ministry review the role of the OEB as an independent regulator when ministerial directives that impact electricity rates are issued and report back to the Committee on its results.	Assessed in 2016 as Will Not Be Implemented	The Ministry did not review the role of the OEB as an independent regulator when ministerial directives that impact electricity rates are issued. The *Energy Statute Law Amendment Act, 2016*, proclaimed into force on July 1, 2016, changed the electricity planning process in Ontario. Under the new legislation, the Ministry is responsible for developing and updating Long-Term Energy Plans for Ontario while the OEB is responsible for preparing an implementation plan when the Ministry requests it. Although the new long-term energy planning process includes a role for the OEB in facilitating the implementation of the Long-Term Energy Plan objectives, it does not enable the OEB to review and approve the Ministry's plans as an independent regulator.